



Will Silicon Valley Sink Canadian Banks?

Description

Canadian banks are known to be resilient. After all, they famously made it through the financial crisis without any bailout money, unlike their American counterparts. However, there's a more recent threat that could cause some major damage: Silicon Valley.

Technology giants such as **Apple Inc.** ([NASDAQ:AAPL](#)) and **Google Inc.** ([NASDAQ:GOOG](#))([NASDAQ:GOOGL](#)) have been aggressively getting into financial services, and Canadian banks have taken notice. **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) CEO Dave McKay even said recently that Canadian banks are “on a collision course” with big tech companies.

So, what does the future hold? Should Canadian bank investors be worried? Below we take a closer look.

The current threats

Technology companies from Silicon Valley have launched a number of financial services offerings in recent years. The most prominent of these is Apple Pay.

The premise of Apple Pay is very simple. It involves a customer paying for a product with his or her smartphone, rather than a card (or cash for that matter). Apple then connects to both the customer's bank and the merchant's bank. The transaction is ultra-secure, and Apple collects 0.15% of the money transferred for its trouble.

Other companies, such as Google and **Facebook** are taking similar approaches, with one important difference. These firms are using payment transactions to gather loads of data, which helps them more effectively place ads. Either way, banks don't play the same role they otherwise would—this is commonly known as “disintermediation.”

Why the tech companies will win

Let's face it: Canadian banks aren't known as great innovators. They are big, stodgy, slow, and bureaucratic. Perhaps the best example is the **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)). The

bank is known to keep a tight lid on costs, but this often means it's slow to upgrade its services. For example, it still doesn't even allow its customers to deposit a cheque with their smartphones.

By contrast, Silicon Valley is constantly innovating, seemingly at light speed. Projects can get approval much more quickly, and failure is more highly tolerated. Coders will often work day and night to develop new products, something unheard of at Canadian banks. Furthermore, the tech companies have very deep pockets and are not accustomed to losing. Even if a product isn't profitable, it can get the go-ahead from management (Google's Android operating system is a perfect example).

Why Canadian banks will survive

There are two main advantages that the Canadian banks have over the tech companies. One is trust, which does not get built up overnight. Customers that trust their bank are unlikely to switch away—the risk (and hassle) is far too great.

The other is regulation. Importance of regulation will grow if the tech giants start offering more traditional financial services (such as deposit taking and loan granting). The banks are well adapted to deal with this regulatory maze, and again, this comes with experience.

So, if you hold shares in a Canadian bank, you shouldn't hit the sell button just yet.

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