3 Ways Tech Companies Like Apple Inc. Are Threatening Canada's Banks

Description

Canadian banks have been facing numerous well-publicized headwinds lately: the Canadian housing market is widely estimated to be anywhere between 20-60% overvalued; oil prices fell as much as 30%, slowing economic growth and raising concerns about the integrity of oil and gas loans; and interest rates are historically low.

The biggest risk facing Canadian banks, however, is much less publicized—the threat of disruption from major tech players. While real estate markets, oil prices, and interest rates fluctuate as part of normal economic cycles, technology players threaten to fundamentally change the banking landscape and how consumers perform day-to-day banking. If banks fail to adapt to changing customer needs and rapidly changing technology, banks could find themselves left behind.

A recent survey found that nearly 50% of customers would bank with a company they currently use, but that does not currently offer banking services, and 66% simply view their relationship with their bank as being transactional, and not underpinned by a broader relationship. These are concerning trends. Here are the three major ways tech companies are threatening Canadian banks.

1. Technology companies are entering the mobile payments space

This is one of the first major arenas in which technology companies are entering into competition with banks. **Apple Inc.'s** (NASDAQ:AAPL) popular new Apple Pay mobile payment app, which allows users to load approved credit and loyalty cards onto the program and swipe at payment terminals to instantly pay.

Apple Pay has been extremely successful in the U.S., quickly accounting for two-thirds of contactless payments completed. Apple is currently in talks with the Canadian banks to potentially launch in November, and the risk is substantial.

Canadian banks make money by charging fees to merchants for every credit card transaction, and Apple plans to insert itself in the middle, charging potentially 0.25% of the transaction value to banks. This could reduce revenues for banks and weaken the banks' relationship with customers. Banks like **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) and **Royal Bank of Canada** (TSX:RY)(NYSE:RY) have rolled out their own mobile payment apps, but neither have Apple's full functionality.

2. Technology companies are entering the money transfer market.

Although businesses like Paypal have been performing money transfers for years, the space is getting even more competitive, with **Facebook Inc.** (NASDAQ:FB) recently announcing a peer-to-peer money transfer service through its messenger app for U.S. users.

Other smaller start-ups like TransferWise are also looking to directly disrupt the banking industry by offering a solution to extremely high transfer fees that banks charge for overseas transfers. For the most part, TransferWise charges a flat 0.5% for money transfers. The company has been rapidly growing market share in the nearly $10 trillion sent internationally every year.

With 20% monthly growth, companies like TransferWise are performing transfers that would normally be performed by banks, and this trend should only accelerate. As services offered by companies like TransferWise and Facebook become more popular, banks not only stand to lose revenue, but also access to customers.

Customers will now be interacting with an intermediary instead of directly with the bank, meaning banks will lose out on opportunities to cross-sell, communicate, and learn from customers.

3. Technology companies are entering the lending business

Finally, technology companies are popularizing the concept of peer-to-peer lending. Traditional banks make money by collecting deposits, paying little on them, then loaning out the deposits to earn a spread. Peer-to-peer lending aims to cut out the middleman by connecting borrowers directly with lenders.

Without the excessive costs traditional banks face by maintaining a large branch network, peer-to-peer lending companies can pass savings down to both borrowers and lenders, providing them with a better deal than they could get elsewhere, while still being lucrative to the provider.

In Canada, Grouplend Inc. provides this service after launching in November 2014, and has seen $60 million in loan applications since January alone. The company connects accredited investors with credit-worthy borrowers, providing a personalized interest rate and funding within 24 hours.

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