3 Reasons Why Toronto-Dominion Bank Shouldn't Be So Worried About Tech Start-Ups

Description

In recent months there's been much talk about technology "disruptors" in the financial services arena. These include peer-to-peer lending networks, robo-advisors, and new payments platforms. Such companies operate with much lower costs mainly because they don't have any branches to maintain. That's allowed them to charge lower fees to their customers.

It gets worse for the banks. Tech start-ups tend to be much more nimble, and are not bogged down by the bureaucratic processes seen at big banks.

The story is especially worrying in the United States, where tech start-ups are catching on a lot more quickly. Thus, **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), which has more branches in the U.S. than in Canada, is very concerned. Is now the time to dump your TD shares?

Not so fast. Below are three reasons why TD will be just fine, even in the face of new start-ups.

1. The right kind of customers

To set the record straight, many of these tech start-ups are growing very quickly. And you should expect that to continue. But the banks are unlikely to feel a big effect any time soon.

Why? Well, younger people are most likely to switch over to the tech companies, and they tend to have less money. As a result, they tend to be less profitable for the banks—that is, if they are profitable at all. According to one study, nearly 40% of all chequing accounts in the U.S.A are unprofitable. So, if these accounts are moving to newer companies, it's really no big deal.

The same is true of robo-advisors. Again, young people are most likely to switch, and they tend to have less money. Banks have much less interest in these small accounts.

2. Little obvious benefit

What about the older, richer crowd? Are they about to move over to the tech start-ups? Well, not any time soon.

Quite simply, these people have no obvious incentive to leave their bank. Higher-balance bank accounts often come with all fees waived, and the VIP treatment from wealth management departments are hard to give up. Credit cards may come with an annual fee, but this is more than compensated for by loyalty rewards points.

So, for the time being, the banks' most important customers should stay put.

3. Trust, regulation, and experience

In the long term the tech companies are much better positioned. After all, the young people who've switched will eventually get older, and they're unlikely to switch back to the banks.

But banks have more experience than the tech companies. They've lived through the worst financial crisis since the great depression, while most financial technology companies are too young to have such experience. Banks are also subject to more heavy regulation, something that the tech companies haven't had to deal with yet. Finally, banks are generally trusted, even in the United States—the tech companies have yet to earn this.

So, while the tech companies will take their fair share, don't expect the big banks to feel the heat any time soon. You can hold onto your TD shares.

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