How Much Damage Will FinTech Companies Do to Royal Bank of Canada and Toronto-Dominion Bank?

Description

In a late September report, consulting juggernaut McKinsey predicted that non-banks (mainly technology companies) will threaten 10-40% of retail banks' revenues by 2025, and up to 60% of their profits. Such numbers are certainly high enough to make Canadian bank investors nervous.

But shareholders of banks like **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) shouldn't be so scared. We look at three reasons why below.

1. A cozier industry

It's safe to say that Canadian banks have a much easier time than their American counterparts. After all, the Canadian market is dominated by five national players, while thousands exist in the United States. That makes profits far easier to come by north of the border.

The lack of competition also makes it easier for banks to deal with FinTech companies. Apple Pay is a perfect example. In the United States, banks were "desperate to become their customers' default card on Apple Pay", according to *The New York Times*. This gave Apple the upper hand in negotiations.

But here in Canada, the big banks have formed a consortium for negotiating with Apple Pay, something that's only possible because of the limited number of banks in the country. It should give the banks strong leverage, thus reducing the damage that Apple Pay will do.

2. More loyal customers

Surprisingly enough, Canadians are loyal to their banks. Certain features, such as automatic bill payments, make switching banks a messy process, and bank accounts are fairly similar anyways. So, there's usually little incentive to switch.

Furthermore, wealthier Canadians are relatively well served by their banks. Account fees are usually waived, and credit card points add up quickly. Wealth managers provide very personal service. And loans usually come at very attractive rates, especially in today's environment. These people are less likely to switch to a FinTech company, which is good news for the banks, since these people are easily the most profitable.

3. Drumming up business

Finally, let's not forget that McKinsey is always looking for new business. And the consulting firm is more than willing to help banks deal with FinTech companies, for the right price, of course.

So, it makes perfect sense that McKinsey wants to show how much damage FinTech companies will do to the banks. But in reality, those numbers (up to 40% of revenue and 60% of profits) likely assume that the banks take no action at all. Such an assumption would not be appropriate for RBC, or TD, or any of the other Big Five.

So, their shareholders can breathe a little easier.

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