

## Could 60% of Toronto-Dominion Bank's Profits Be at Risk?

### Description

Canadian bank shareholders likely spend a fair amount of time thinking about the various risks to their bank shares: low oil prices, a slowing economy, and an overvalued housing market. According to a recent slew of reports, however, bank shareholders should really have only one big concern on their minds—new “FinTech” companies that are threatening to steal bank business.

A recent report by Mckinsey concluded that up to 60% of global bank profits are at risk from new FinTech start-ups. Sixty percent of bank profits come from the origination and sales of services, and low-cost, consumer-friendly digital companies threaten to take a large portion of this business with more than half of banking customers willing to switch to a digital provider.

In this regard, **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) is vulnerable—90% of the bank's earnings come from retail banking. Should TD investors be concerned?

### Understanding the risk to TD from FinTech firms

Retail banking is divided into a few areas: wealth management, mortgages, consumer finance, payments, and small business lending. New financial technology companies are setting up in each of these areas.

For example, Apple Pay has recently set up in the payment space. Apple's payment app allows customers to use their smartphones to pay at the checkout counter by loading credit, debit, and loyalty cards onto the app. It is expected that Apple Pay will soon launch in Canada, and the banks would need to pay a fee to Apple every time a transaction is made.

Other companies, like [WealthSimple](#), offer low-cost and customer-friendly portfolio management solutions that automatically pick ETFs and rebalance them based on the customer's risk tolerance. These solutions are very appealing to millennials with smaller amounts to invest.

While these FinTech firms will undoubtedly put pressure on bank margins as bank's need to lower costs to compete with technology firms that have extremely low overhead, there is an even bigger threat.

Whenever a TD Bank customer uses Apple Pay to make a purchase, or registers with WealthSimple to invest, TD is losing access to its customer—something known as disintermediation.

This means that banks could lose valuable opportunities to learn about and sell to their customers. The main risk is that FinTech firms, with their better customer experience and lower costs, will be the day-to-day interface that customers use to conduct their finances.

This would relegate banks to simply owning the underlying infrastructure, and the effects on profitability from this shift could be alarming.

## How TD Bank is preparing

Fortunately, TD Bank is very aware of the threats posed by FinTech companies, and the company has been extremely focused on preparing for the future of banking by making several strategic moves. These moves should help to ensure banks stay relevant amid a changing financial landscape.

Firstly, TD Bank has been investing heavily in its digital capabilities. The bank recently took a \$228 million restructuring charge, and a part of this charge came from merging branches, cancelling new branches, and closing branches. The bank is seeing store transactions drop by 6% annually as more customers use the digital channel more, and TD Bank is investing the savings from the closed branches into improving its mobile and digital capabilities.

TD Bank has been making significant investments into improving the speed and capability of its mobile and digital capabilities, and with the number one mobile banking app in Canada by users, TD Bank is capitalizing on its current advantages.

The bank also recently opened an “innovation lab” in the Waterloo region, which acts as a start-up and draws from the regions pool of high-tech talent to think of innovative ways to improve the customer digital experience. TD Bank recently announced it will be making 120 new hires for the operation.

In addition, TD Bank is also forging partnerships with innovative FinTech firms, which allows the bank to benefit from innovative technology, while allowing tech firms to benefit from the bank’s extensive customer base.

The bank recently announced a partnership with Moven—a budgeting and money management app—which gives TD Bank exclusive distribution rights for the app. This type of partnership may in fact represent the future of banking, and TD Bank has expressed that it has recently been in talks with numerous FinTech firms.

## CATEGORY

1. Bank Stocks
2. Investing

## POST TAG

1. Editor's Choice

## TICKERS GLOBAL

1. NYSE:TD (The Toronto-Dominion Bank)
2. TSX:TD (The Toronto-Dominion Bank)

## Category

1. Bank Stocks
2. Investing

## Tags

1. Editor's Choice

**Date**

2025/08/25

**Date Created**

2015/10/20

**Author**

amancini

default watermark

default watermark