3 Reasons Why the Big Banks Will Win vs. the FinTechs

Description

According to a recent *Globe and Mail* article (available to subscribers only), **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) spends $2 billion per year on technology, much of which goes towards competing with new FinTech start-ups. And on Thursday morning, **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) CEO Bharat Masrani called for regulation of the FinTech industry.

Clearly, the Canadian banks are worried about these FinTech start-ups. And they have good reason to be. FinTechs have a much lower cost structure, allowing them to pass on savings to consumers through better rates and lower fees. Meanwhile, the big banks can have a bureaucratic culture, one that makes technological innovation slow and difficult.

But the FinTech are facing obstacles too, and investors must consider these factors before selling all their bank shares. On that note, below are three big advantages the banks have over FinTechs.

1. The power of relationships

One of the biggest FinTech threats to Canadian banks are so-called robo-advisors, such as WealthSimple, which automatically steer investors into ETF solutions for a very low fee. What make robo-advisors particularly threatening is the high cost of Canadian mutual funds.

But many Canadians would have to give up a long-standing relationship with their financial advisors if they want to switch to a robo-advisor, and this is nothing to sneeze at. Not only would it involve a painful conversation, but it would also mean giving up personalized advice–something that many financially unaware Canadians count on.

This is especially the case with the older generation, and these are the people who have the most money. Eventually, this will change as the younger generation ages, but this shift will take decades.

2. Limited desire to switch

Over the past five years, the percentage of Canadians looking to dump their bank has gone from the mid-teens to the single digits. The banks deserve some credit for this, especially TD, which has placed a heavy emphasis on customer service.

But technology plays another big factor. New features such as automatic bill payments make switching bank accounts a much bigger hassle, especially with such limited benefits. Again the FinTechs will whittle away at the banks' lead, but high switching costs will make this a very slow process, especially among the most valuable customers.

3. Limited competition

Another big threat, especially in the United States, has been the introduction of new payment options like Apple Pay. When **Apple Inc.** launched this product in the U.S., it was able to play the banks off each other. Put another way, most banks were afraid of being left out, which allowed Apple to dictate the terms.

Canada has been a different story. Because there are only six large banks, they were able to form a consortium to negotiate with Apple Pay. And what was the result? Apply Pay is available for AMEX cardholders only.

Over time, other services like Apple Pay will look to "partner" with large banks, and they will inevitably have more success in the United States. Investors in the Canadian banks will have far less reason to worry.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:BNS (Bank Of Nova Scotia)
4. TSX:TD (The Toronto-Dominion Bank)

Category

1. Investing

Date
2025/07/22
Date Created
2016/04/02
Author
bensinclair