



Should Royal Bank (TSX:RY) Be Worried About Amazon (NASDAQ:AMZN)?

Description

Royal Bank of Canada ([TSX:RY](#))([NYSE:RY](#)) CEO Dave McKay made headlines this week when he expressed concern over big tech companies getting involved in financial services.

At a conference in New York, McKay stated, “They are getting between us and the moments of truth of our customers, and currently what they do with that is they sell that insight back to us in the form of search and advertising and other perspectives, and they earn a certain amount of economic rent.”

Is he right to be worried?

The reality is that tech companies do know a lot about customers and can definitely use that data to their advantage. It's an area where the big banks have been a bit lacking, and for good reason: there's not a whole lot of competition, especially in Canada. South of the border, however, where there are more banking options, there could be a lot of merit to McKay's concerns.

A company like Amazon with all its resources and data could strategically undercut the cost of financial services, and big banks could feel the pain. The main hurdle, however, is security. With the big chartered banks in Canada offering their consumers a strong sense of safety, it will be hard to pry customers away from that level of comfort.

The big play could be for millennials and younger tech-savvy consumers that are more focused on flexibility and price and would have an easier time trusting a company like Amazon. The challenge is to convince customers that the data won't be misused and will be adequately protected as [data scandals](#) have been plaguing the industry over the past few year, and the concerns are definitely front and centre today.

The short answer is clearly yes, that big tech companies could definitely grab market share away from big banks, but the question is whether it will be enough to make much of a dent in RBC's financials. It's mortgages and big businesses that draw a lot of revenue for banks, not chequing accounts from frugal consumers, and so the latter might be a small casualty for a company like RBC that did more than \$43 billion in net revenue over the past four quarters.

Bottom line

I wouldn't be concerned about Amazon or any other big tech company trying to get into financial services. While they might help innovate services and change the industry, banks will adapt. Although they might be reactive, we've seen companies like RBC adapt and provide more mobile-friendly apps and solutions to customers. Big banks aren't going to sit by and give up their strong positions in the industry.

With significant cash and resources, the banks will be more than formidable opponents for Amazon. While there might be some pain in the short term, in the long term I wouldn't be worried about [bank stocks](#). Online and other low-frill banks have popped up before and the big banks have been just fine.

CATEGORY

1. Bank Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NASDAQ:AMZN (Amazon.com Inc.)
2. NYSE:RY (Royal Bank of Canada)
3. TSX:RY (Royal Bank of Canada)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Bank Stocks
2. Investing

Tags

1. Editor's Choice

Date

2025/07/04

Date Created

2019/03/14

Author

djagielski

default watermark

default watermark