



BANKING

FOR THE FUTURE

By Patrick O'Keefe

Technology will play a big part for consumers on how they get loans, pay their bills, and transact. Many new entries into the world of technology are not banks providing these services in a digital format. A recent study showed that more than half of the U.S. population would be comfortable buying financial products from a tech company like Amazon or Google. The days of having one trusted relationship with a traditional bank will be replaced with a centralized digitally enabled financial services platform. PayPal has over 250 million users. Cryptocurrencies like Revolut, Robinhood, Coinbase, and Square may be the wave of the future.

One of the alarming trends in consumer banking is the financial illiteracy of the U.S. worker. Seventy-eight percent of full-time workers are paycheck to paycheck. Fifty-eight percent of all U.S. workers say they are in debt over their heads. Twenty-five percent of adults have no retirement savings. Forty percent don't think their investments are on track and sixty percent with self-directed investments have no comfort in managing their affairs. The digital revolution is trying to impact trust and amount of time to transact, two key ingredients in converting users. There has been a big shift in consumers' acceptance of technology companies because they are intertwined in their life. Seventy-three percent of millennials would be willing to buy financial products offered by Google, Apple, or other tech companies. Even those aged 35-54 have sixty-one percent acceptance of these tech companies to satisfy their banking needs. More than half of the U.S. population would be comfortable buying financial products (credit cards, bank accounts, investments, and home loans) from a technology company. Today banks allocate 15-25% of their annual budget to IT. The technology companies who assist banks believe they have a better platform for an underserved market. Companies with FinTech solutions believe they can overtake banks in providing financial services. Robinhood, with 4 million consumers using its free stock trading platform, is seeking to offer savings accounts and other bank products. These tech companies are fairly brazen in their ability to reach the consumer. There are currently FinTech products to credit risk rate cash preferred customers who are generally unbanked. As this market grows, customers who seek FinTech solutions will find these nontraditional banks attractive. As the banking ecosystem becomes digitalized there will be large margin reductions in banking services for payment processing. Generally, digital services are 5% of the cost of human interaction. A majority of millennials would change banks for a better tech platform. Mobile banking apps allow consumers ease of use and the ability to monitor bank balances timely.

In conclusion, the tech companies are well positioned to tap into the consumer banking market. The question is how long the government will allow these companies to be unregulated in providing financial products. Is convenience more valued than governmental oversight? Only time will tell.