Publication: Forbes Online
Date: 14 March 2021
Headline: Broke: Challenger Bank. Woke: Challenger Money

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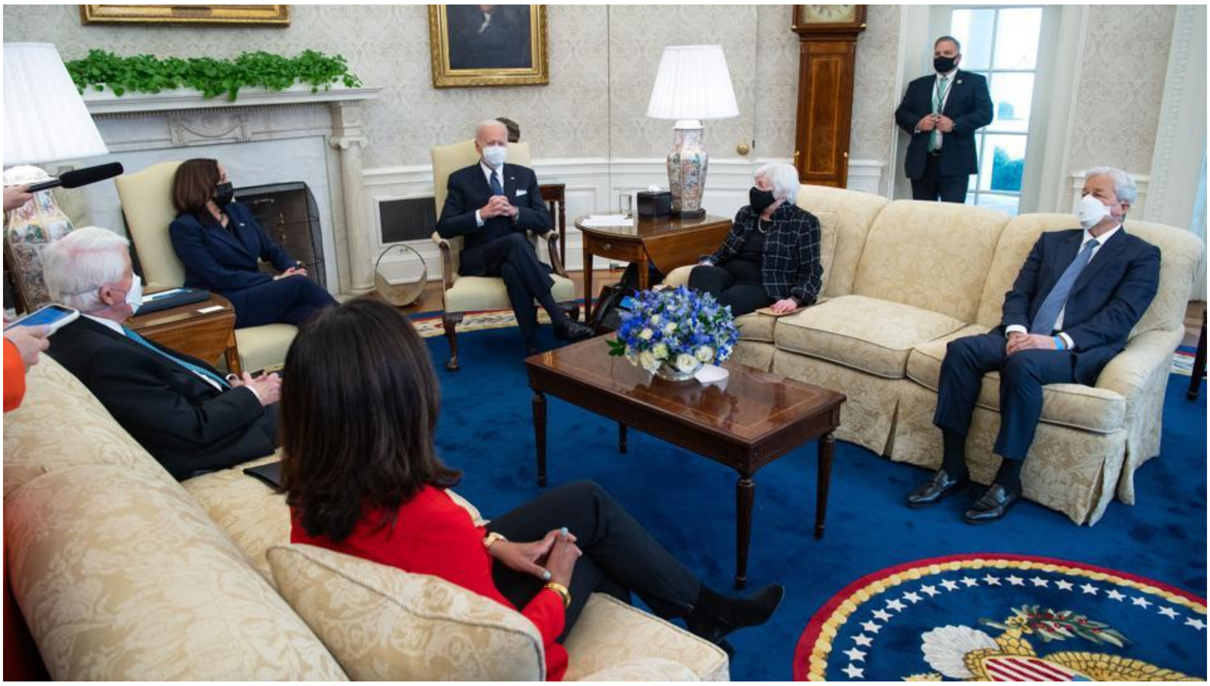
When Jamie Dimon, the CEO of JP Morgan Chase JPM +1.2%, said that his bank should be "scared s***less" about fintech competitors, he identified the fintechs PayPal, Square, Stripe and Ant Financial in addition to the techfins Amazon AMZN -0.8%, Apple AAPL -0.8% and Google GOOG -2.5% as companies that the bank would need to compete with. Since he's already forgotten more about banking than I will ever learn, I am certain that he is correct. What was interesting to me about this list was, though, that none of the organisations listed as keeping him awake at night began as “challenger” banks or bank spin-offs.



As I wrote in my first ever column on Forbes, when people were talking about "challengers" they should have be talking about Microsoft MSFT -0.6% not Monzo. The challenger banks are just banks and as my good friend Alessandro Hatami wrote at the time, neither the challengers nor the incumbent banks, despite spending heavily on their own technology, have transformed the financial services sector. But perhaps real challengers will.

If the challenger banks aren’t really a threat to the incumbent giants, then who are their real challengers? Surely the threat is new business models, not new versions of the same old businesses.

Mr. Dimon singled out payments as a specific hill for banks to die on. This is because the business models of the future depend on data, and payments account for the overwhelming majority of interactions between a bank and its customers and therefore customer data. When storming that redoubt (and the walls were breached this week with the news that ChasePay is being shut down) the techfins don't care about the money, because the margins on payments are going down, but that data. I was quoted in The Economist talking about this impending reshaping of the retail financial services sector a couple of years ago, pointing out that financial products are heavily regulated (as they should be) which is why the techfins are more than happy to have Mr. Dimon and his colleagues do the boring, expensive and risky work with all of the compliance headaches that come with it.

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The techfins want the banks to do the manufacturing while they take over the distribution. This is an obvious strategy with major implications because if the techfins get between the consumers and their banks, then the banks will end up having to give away margin but, far more seriously, data. BofA Securities, amongst others, have pointed out that there is a "huge and valuable prize for private-sector players" from outside the banking sector if they can get in this business: the "treasure trove" of customer data that is not being fully exploited by the banks.

Data in the Vaults
You might argue that the banks deserve nothing more than being turned into low-margin plumbing to support more innovative and efficient techfin plays on top. Nydia Remolina at the Singapore Management University wrote good paper on this last year, saying that "financial institutions have access to enormous amounts of data, but due to multiple constraints this data is not yet sufficiently converted into useful insights" and putting forward a "data operating model" to link open banking, cloud computing, machine learning and AI to support digital transformation. I think this model is valuable because the ability for machines obtain insight and take action makes for a very different kind of fully-digital financial services sector based on the movement of data, not money.

Similarly Dara Hizveren of Garanti BBVA, writing in the most recent Journal of Digital Banking, rightly notes the opportunity for banks to try and build new businesses on such a model. The idea of “data banks” that manage personal information (and the consents associated with it) is hardly new, but as Dara highlights, the regulatory pressures of open banking and the commercial pressures of competition from the techfins are combining to push the banks into action. The natural extension of asset management businesses into personal data (the most valuable asset of all) is a priority.

I think we can already see how fintech firms, and particularly data-driven lenders, are demonstrating that this new business model, using payment data in the form of transaction histories obtained through open banking as a substitute for conventional credit scores, might be important not only to the sector but to economic recovery itself.

The UK actually looks pretty good in this regard. With a competitive fintech sector and open banking already in place, access to the transaction data has become energy for innovation. I know this at first hand because I was fortunate to be asked to be one of the judges for the Open Banking Innovation Awards for SMEs and I have to say I was pretty impressed by the businesses already taking advantage of this combination of new regulation and new technology. A couple of good examples are Fluidly, which plugs into accounting packages and bank accounts and uses machine learning to intelligently manage SME cashflow, and Swoop which integrates through open banking to simplify access to all kinds of SME finance. More recently Liberis, which provides cash advances to SMEs secured against their payment card transactions and repayments set as an agreed fraction of those transactions struck me as a good idea or all involved and as I sat down to write these paragraphs I noted another new player Fintern (with a team from Bank of America BAC +1.9% and HSBC, among others) opening for business using open banking-led affordability testing to make lending decisions.

Challenging Ideas
These are great businesses, but are they keeping Jamie tossing and turning in the small hours? I'm not sure. If they get big enough, he can buy them. We need to look further afield to find the non-banks that are his real nightmares and I think India might give us an indication of which way the wind is blowing.

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Ram Rastogi, who I always listen to on such matters, notes that Amazon in India is not only launching a digital banking platform to compete with the incumbent banks but is also applying for a licence to run a payments system as well. The Reserve Bank of India has invited companies to create new umbrella entities (NUEs) to build payments networks that offer an alternative to the bank-owned not-for-profit National Payments Council of India (NPCI) and Amazon are doing so in a consortium with Axis Bank and ICICI Bank. Amazon are not the only ones in this game, of course. Facebook and Google are linking with local players Infibeam and Reliance Industries to set up a competing network.

With the bank and the payment network, Amazon will be able offer their sellers a full service, ranging from current accounts and deposits to business loans and payments management, all through their own interface. The customers will never have to go near a conventional bank, a payments application or anything else. Not only are they launching their own payments system in India, they are apparently looking to launch their own money in Mexico. One of the behemoth's job postings described the product as enabling customers to "convert their cash in to digital currency using which customers can enjoy online services including shopping for goods and/or services like Prime Video".

It's one thing to have your own bank. It's another thing to have your own payment network. It's another thing still to have your own money. I know nothing about running a financial institution of any kind, but if I was in charge of a bank then the thing to keep me awake at night would be Jeff Bezos' face on money!