Fintech

Forget banks, in 2018 you'll pay through Amazon and Facebook

Changes in regulation mean the tech giants will soon be able to access customers' bank account data, posing a challenge

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Credit **Rune Fisker**

In 2018 the banks will concede customer mindshare to the GAFAMs (Google, Apple, Facebook, Amazon, Microsoft) and the BATs (Baidu, Alipay, Tencent). The proof? Take a look at the trajectories of Paym in the UK and Venmo in the US. Non-banks are simply better at this than banks are.

Non-banks are about to get a huge boost from European and UK regulators, thanks to the European Commission's Second Payment Services Directive (PSD2), which becomes law in January 2018. Combine this with the UK Treasury's Open Data initiative and the Competition and Markets Authority's (CMA) open banking "remedies", and the UK's nine biggest banks will start the year with APIs in place for third parties to gain access to their customers' bank-account data (with your consent, of course) and initiate payments on your behalf. This means that when Amazon asks for access to your bank account in return for an extra month of Prime, there's nothing the bank can do to stop them.

It won't just be Amazon doing this. Facebook will ask for (and get) direct access to your bank account and the payments infrastructure. Next time you need to send your friend a tenner, you'll instant-message them the money, rather than opening up your boring bank app, fiddling about finding their bank details, authenticating yourself again and finally firing off the cash. You'll just type "+£10" in your WhatsApp chat.

No big deal, you might think. But remember that almost all customer interactions with banks are payments. If banks never see the customer making payments, they lose their most important resource: data. We've already seen it happen in China, where the banks have waved goodbye to payment revenues because of WeChat and AliPay. But, they will not get the data about payments too - and they are more concerned about that.

Banks need payments data to develop new value-added financial services, but also because it's the essential oil for the risk-management machines at the core of banking. If they can't feed their machine-learning AI supercomputer risk engine, then they can't price. And that will threaten new products for customers. At least one bank, ANZ in Australia, is planning to introduce direct risk-based pricing in 2018, so that when someone asks for a mortgage they'll get terms specific to them. But LinkedIn probably has just as good an idea as to whether they are worth lending to, and if Microsoft can check their bank account as easily as a rival bank, Money Supermarket or payday lenders, then what exactly is the special sauce for the bank to serve?

Money

To change how you use money, Open Banking must break banks

The effect of this is that AI in 2018 will be a kind of event horizon for financial services. No one can see what is on the other side. But when Google feeds all the data from someone's bank accounts into their advertising engines it's fairly certain that bank profits - based on information asymmetries, product friction and brand loyalties - will vanish.

To stay in the loop, retail banks may choose a strategic option built around identity, trust and reputation - if they get their act together and regain thought leadership in the space. If not, 2018 will be the start of a fundamental realignment as banks become heavily regulated pipes for tech giants to use for their profit.

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