TECH COMPANIES IN PAYMENTS

HOW TECHNOLOGY GIANTS ARE USING THEIR REACH AND DIGITAL PROWESS TO TAKE ON TRADITIONAL BANKS

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BI INTELLIGENCE

KEY POINTS

- **Google, Apple, Facebook, Amazon, and Microsoft (GAFAM) are gaining recognition as the next potential payments disruptors.** Each of these five companies has introduced features and offerings that have the potential to disrupt specific parts of the banking system. For example, Apple, Google, and Microsoft provide mobile wallets that enable consumers to pay for goods and services via their smartphones, while Amazon offers loans to small- and medium-sized businesses (SMBs) selling on its platform. Facebook, meanwhile, allows users to make peer-to-peer (P2P) payments via Messenger.

- **Given the broad reach and hefty resources of GAFAM, they could have a major impact not only on the payments industry, but also on the overall financial market.** All five firms count massive digital user bases — GAFAM has products that have been adopted by millions of users, and in some cases, billions. They also have access to a tremendous amount of capital — Apple, Microsoft, and Google had over $400 billion combined in cash at the end of 2016.

- **However, it's unlikely that any of these firms will completely upend traditional banks.** The financial sector is strictly regulated, making it extremely difficult for even the strongest challengers to enter the space. Moreover, firms that do manage to clear the barriers face stiff competition from legacy players, which consumers still trust most — 60% of respondents to a BI Intelligence survey stated that they trust their bank most to provide them financial services. Meanwhile, the ongoing proliferation of financial technology firms, or fintechs, makes the market even more competitive.

- **It's more likely that GAFAM will make a dent in very specific segments of the financial services industry.** Through the use of digital wallets, these tech firms will likely reduce the brand awareness of payments providers, and could eventually cut them out of the transaction chain completely. Additionally, companies like Amazon have already proven that tech companies can thrive in the SMB loan space. In the future, these companies are likely to increasingly siphon business away from traditional channels as they continue to build out their loan offerings.

- **Legacy players will have to move quickly to mitigate the looming threat posed by GAFAM.** There are two primary ways to accomplish this: by partnering with tech firms for specific services, essentially losing brand awareness but continuing to gain a portion of revenue; or by partnering with or acquiring fintech companies, thereby quickly strengthening in-house digital offerings.

Download the charts and associated data in Excel »

INTRODUCTION

As headlines like "Amazon Is Secretly Becoming a Bank" and "Google Wants to Be a Bank Now" increasingly crop up in the news, tech giants are coming into the spotlight as the next potential payments disruptors. And with these firms' broad reach and hefty resources, the possibility that they'll descend on financial services is a hard narrative to shy away from. To mitigate potential losses under this scenario, traditional players will have to grasp not only the level of the threat, but also which segments of the financial industry are most at risk of disruption.

Google, Apple, Facebook, Amazon, and Microsoft, collectively known as GAFAM, are already active investors in the payments industry, and they're slowly encroaching on legacy providers' core offerings. Each of these five companies has introduced features and offerings that have the potential to disrupt specific parts of the banking system. For example, Apple, Google, and Microsoft provide mobile wallets that enable consumers to pay for goods and services via their smartphones, essentially replacing the need to carry bank cards, while Amazon offers loans to small- and medium-sized businesses (SMBs) selling on its platform to help them grow their businesses. Facebook, meanwhile, allows users to make peer-to-peer (P2P) payments via Messenger. These are just a few of the initiatives we've seen from GAFAM in payments, and we expect a plethora of additional offerings to hit the market as these companies look to build out their ecosystems.

However, it remains unlikely that any of these firms will become full-blown banks or entirely upend incumbents, due to regulatory barriers and the entrenched positions of big banks. Moreover, consumers still trust traditional firms first and foremost with their financial data. That means these companies are far more likely to rattle the cages of incumbents than they are to cause their total demise. That said, these companies have a proven capacity to revolutionize industries, making their entry into payments critical to watch for legacy players, especially as their moves demonstrate an intent to be a disruptive force in the industry.

In this report, BI Intelligence analyzes the current impact GAFAM is having on the financial services industry, and the strengths and weaknesses of each firm's position in payments. We also discuss the barriers these companies face as they push deeper into financial services, as well as which aspects of a bank's core business provide the biggest opportunities for the new players. Lastly, we assess these companies' future potential in payments and the broader financial services industry, and examine ways incumbents can manage the threat.

AMAZON: A POTENTIAL HEAVY HITTER

With an already impressive suite of payments offerings, Amazon poses an obvious threat to legacy financial services firms. The e-commerce giant introduced Amazon Pay in 2007, an easy and secure way for consumers to check out online with the payment information saved on their Amazon accounts. And it further built out this capability with the introduction of Amazon Pay Places in 2017, which allows consumers to use their accounts to pay for goods in-store via their smartphones and the Amazon app. It also added the capability for users to add cash to their accounts at select brick-and-mortar locations. Additionally, the firm offers merchants on its platform loans via Amazon Marketplace, with over $1 billion in small loans paid out over the last year alone. However, to realistically challenge traditional players, it will have to wrestle with a number of challenges, including the possibility that it could overextend itself by trying to dominate too many industries at once.

Strengths For Amazon In Payments

- **Amazon has a broad reach via an impressive and loyal user base.** The company's user base is massive — the Amazon app is installed on three out of four smartphones in the US; its subscription-based loyalty program, Amazon Prime, has an estimated 80 million US members; and Amazon Pay has over 33 million users. If Amazon were to continue to build out its financial ecosystem, it would be able to lean on this user base to facilitate rapid adoption and growth of its payments products. On top of that, Amazon has access to troves of data on these consumers' payment habits, which could help inform the e-commerce giant's strategy.

- **Its extremely successful cloud solution would support an extensive payments ecosystem.** Amazon Web Services (AWS) controlled 31% of the global public cloud market — almost three times the share of Microsoft, the next closest player at 11% — as of Q2 2016, according to the most recent figures from Synergy Research. As a result, not only does Amazon have the capacity to handle the processing of payments if it were to push further into the space, but it would also be able to easily target merchant client companies for payments services — for example, major retailers like Under Armour and Dole Food Company are already AWS customers.

- **And it has the capital to build out these capabilities.** Amazon had $22 billion in cash on its balance sheet at the start of 2017, aided by the $136 billion in sales it brought in the year before, according to The Seattle Times. Additionally, the company has shown a willingness to make big bets on future growth opportunities that aren't always obvious. Its recent acquisition of Whole Foods for $13.7 billion is a good example.

Potential Weaknesses And Inhibitors

- **Amazon's mobile payments offerings are still relatively premature,** which could make it difficult for the firm to establish itself in a saturated market. Although Amazon Pay has over 33 million users, it trails other GAFAM competitors with digital payments solutions — for example, Apple Pay, Samsung Pay, and Android Pay, which offer both in-store and online payments, are expected to have more than 150 million users combined at the end of 2017, according to data by Juniper Research cited by Bank Innovation. Additionally, they're expected to account for 56% of total mobile contactless payments by 2021, with their combined user base more than tripling.

- **Its offerings don't stack up against another merchant-focused competitor challenging the traditional system — PayPal.** The online payments company has a base of 210 million users, over six times that of Amazon Payments, and its service is accepted by 14 of the top 20 US online merchants, including Walmart and Home Depot, according to Goldman Sachs. There is only one company on that list that lets customers pay via Amazon. PayPal also offers working capital, which leverages its users' data to give out quick, frictionless business loans.

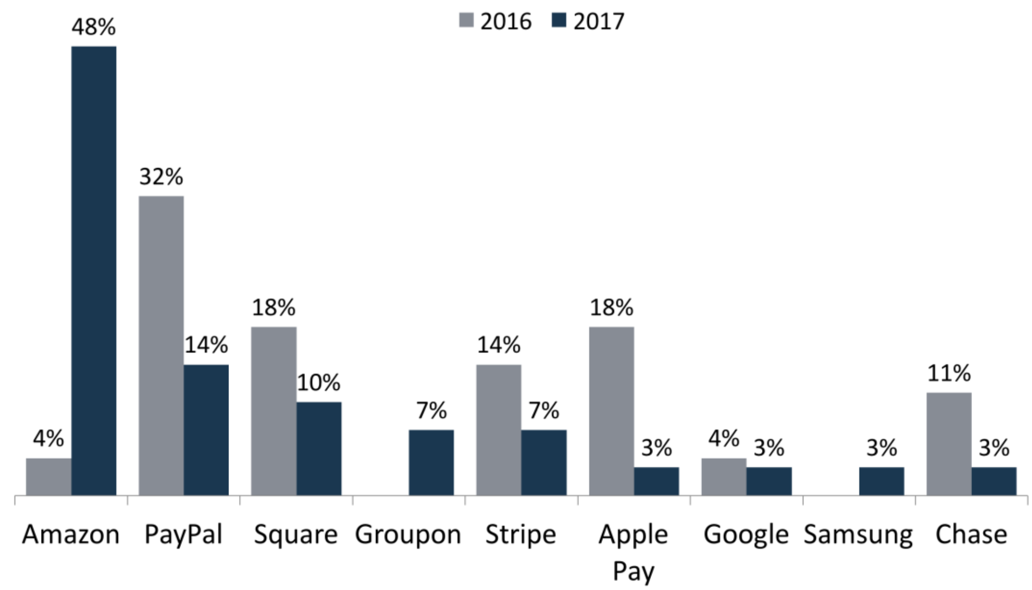
- **Amazon's aggressive expansion into new industries poses the risk that it will overextend itself.** Some of the industries that Amazon has already disrupted include books, retail, media, cloud services, and groceries. As Amazon migrates well beyond its core business, the company will likely find that it can't compete on all fronts, potentially resulting in products that don't stack up against established competitors'.

However, a newly acquired physical network could open opportunities for Amazon to become a more established financial player. Amazon's recent acquisition of Whole Foods has afforded it access to a large physical network — the grocer has over 450 stores in the US, according to Fortune. The company could leverage this footprint to test out new digital payments features and offerings at the grocer's locations — for example, by integrating its Amazon Go concept, which uses sensors and machine learning algorithms to track items customers pick up from store shelves and automatically charges them when they leave the store via the Amazon Go mobile app. This could be extremely disruptive to industry incumbents because it would give consumers a seamless payment experience, similar to that of Uber, which they highly value. The firm could also leverage its physical network to reach consumers who still prefer to perform financial transactions at branches.

Overall, Amazon is seen as the most pressing threat to the existing payments ecosystem, according to a Goldman Sachs survey of over 100 merchant acquirers, independent software vendors (ISVs), and independent sales organizations (ISOs). This sentiment could make Amazon one of the most sought-after partners in the space, which might allow it to scale faster than if it built out a full-blown ecosystem on its own.

Company Viewed As Largest Threat To The Existing Payments Ecosystem

Among merchant acquirers, ISOs, and ISVs



Source: Goldman Sachs Global Investment Research

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GOOGLE: A LEADER AMONG MILLENNIALS

Google has deployed several digital payments solutions — users can make P2P payments via Google Wallet on the app, Gmail, or the web, and a recently released "Pay with Google" feature allows consumers to make payments across apps and mobile devices using registered credentials linked to their accounts across Gmail, YouTube, Chrome, and Google Play. Google partnered with over 40 payments providers to make integrations simpler for merchants that want to offer Pay with Google. The company also owns Android Pay, the mobile wallet that runs on its Android operating system, which powers 80% of global smartphones. It's unlikely that Google will ever disrupt payments on a large scale, partly due to ongoing legal battles that could dampen its efforts in a highly regulated industry. However, its heft with the crucial millennial demographic may provide it with an opportunity to carve out a valuable niche for itself.

Strengths For Google In Payments

- **Google has a proven ability to get large numbers of users to adopt its services.** The company now has seven services that boast over 1 billion users: Google Maps, YouTube, Chrome, Gmail, Search, Android, and Google Play. And these users are extremely engaged — in 2016, users downloaded 82 billion apps from Google Play and watched over 1 billion hours of videos each day on YouTube. The firm also has the world's most popular mobile operating system — the Android platform has more than 2 billion monthly active users. Having access to these massive and highly engaged user bases gives Google an impressive avenue to push payments offerings.

- **Google’s search business equips it with access to huge troves of consumer data.** Google Search processes 3.5 billion requests per day, and each search queries a database of 20 billion sites. This intimate knowledge of consumers' search habits enables Google to obtain a broad look at what bank and merchant customers are looking for and where they go to find it. And with the company's background in machine learning, this data can be quickly turned into actionable insights.

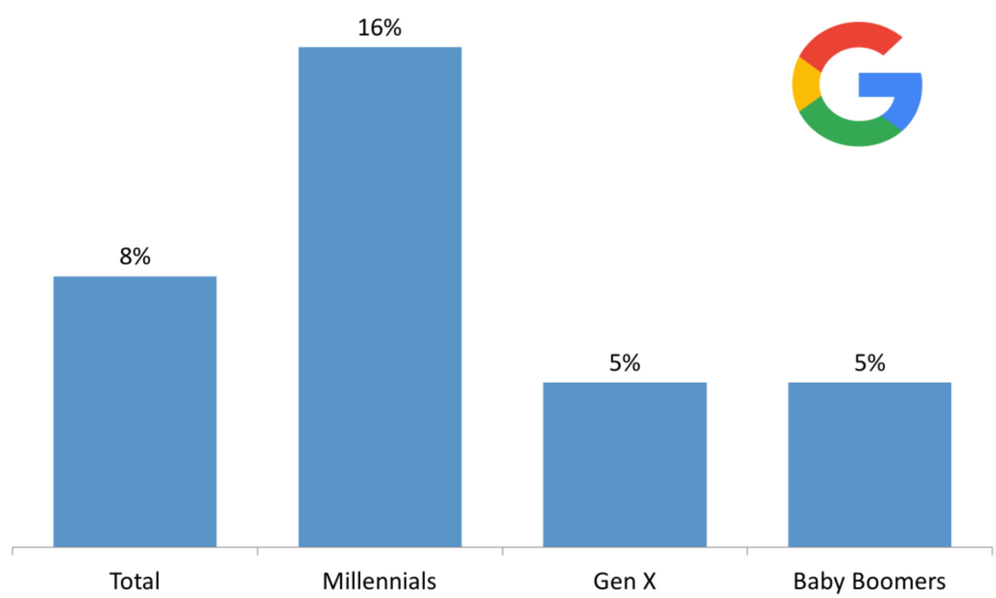
Potential Weaknesses And Inhibitors

- **Google's core business is under threat, which makes branching out into new industries, like finance and payments, a risk.** Google must actively build and maintain partnerships to ensure it keeps its spot as the top search engine — the tech company has already agreed to pay Apple about $3 billion to remain the default search engine on iOS devices, according to CNBC. Search is also being threatened by Amazon, as consumers are increasingly navigating directly to the e-commerce giant's platform to search for goods. Protecting its core search business is crucial and will likely require substantial resources, which could hinder the company's ability to extend deeper into payments.
- **It's already seeing tremendous scrutiny from lawmakers, weakening its ability to enter a highly regulated industry.** Although tech firms broadly are facing pressure from policymakers, Google appears to be the only one that is consistently embroiled in major legal battles. The company was hit with a record $2.7 billion fine by European Union regulators in June 2017 for anticompetitive practices, and is reportedly under two more investigations in the region. These scuffles could also result in renewed scrutiny from US lawmakers — Missouri’s attorney general launched an investigation into Google's business practices in November of this year.

Instead of trying to build a broad position in payments, Google would do well to leverage its reputation among millennials to capture a targeted piece of the market. Millennials trust Google more than any other major tech company to provide them financial services — with the exception of Apple, the leader in trust overall — according to a BI Intelligence survey. Sixteen percent of millennials said they would trust Google most, even over their bank, to provide financial services. This is significantly higher than the 5% of Gen Xers and baby boomers who chose Google. There is clearly an opportunity for the company to leverage this sentiment by specifically targeting millennials with fast, secure, and convenient digital services. The millennial demographic is extremely valuable, and by focusing on these consumers, Google may be able to succeed in payments without detracting too much attention from its search business.

Google is also seen in a positive light by merchant acquirers, ISOs, and ISVs. According to a Goldman Sachs survey, 42% of those who believe mobile wallets will take off expect Apple and Google to succeed. Just as in Amazon's case, positive sentiment from players in the payments space could provide opportunities for new partnerships, which may help the firm scale quickly, and perhaps even avoid added scrutiny from regulators, particularly if it keeps its offerings targeted.

US Consumers Who Trust Google The Most To Provide Financial Services



Source: BI Intelligence survey, n=1,088

EXCLUSIVE DATA FROM BI INTELLIGENCE

APPLE: THE MOST TRUSTED OPTION

Apple has primarily gained recognition in the payments space for its mobile wallet, Apple Pay. Apple Pay is expected to reach 86 million users in 2017 globally, nearly double its 45 million in 2016, according to Juniper Research. And although it's important to note that mobile in-store payment adoption has been slower than most predictions, Apple is still seeing healthy usage — in the markets that Apple Pay is available, the firms it's partnered with have seen 90% of all mobile contactless transactions come via the mobile wallet. That makes Apple Pay-enabled devices an attractive option for merchants. Apple is also introducing a new feature that will let consumers send payments to friends directly in its messaging app, iMessage. Additionally, the company offers interest-free financing on some of its products, including the newest versions of the iPhone. As it ventures further into the payments space, Apple's ability to turn strong brand loyalty into trust could be a crucial advantage, despite a number of challenges presented by the company's closed ecosystem.

Strengths For Apple In Payments

- **Apple's devices are some of the most popular in the world, affording it both reach and brand recognition.** The firm recently surpassed 1 billion active devices, which include the Apple Watch, Mac, iPad, and iPhone. This is an important milestone because, while the firm saw the sale of its 1 billionth iOS device in 2014, sales don't necessarily equate to usage. In contrast, active users are regularly communicating with the App Store and using iCloud. This engagement underscores Apple's brand strength, and primes its users to adopt new products by the firm, including financial offerings.

- **Apple stores represent a strong distribution channel.** There are over 400 Apple stores worldwide that see over 1 million visitors on a daily basis. If Apple were to further push into the payments space, it could use this footprint to engage with consumers, mirroring bank branches.

Potential Weaknesses And Inhibitors

- **Apple's closed ecosystem means many of its products and services are incompatible with other tech companies'.** As a result, the reach of its payments ecosystem will be limited to the owners of its products, regardless of how robust Apple's offerings are. And while the company's user base is vast, this is nonetheless a disadvantage, as rival companies can move to attract consumers on various other devices.

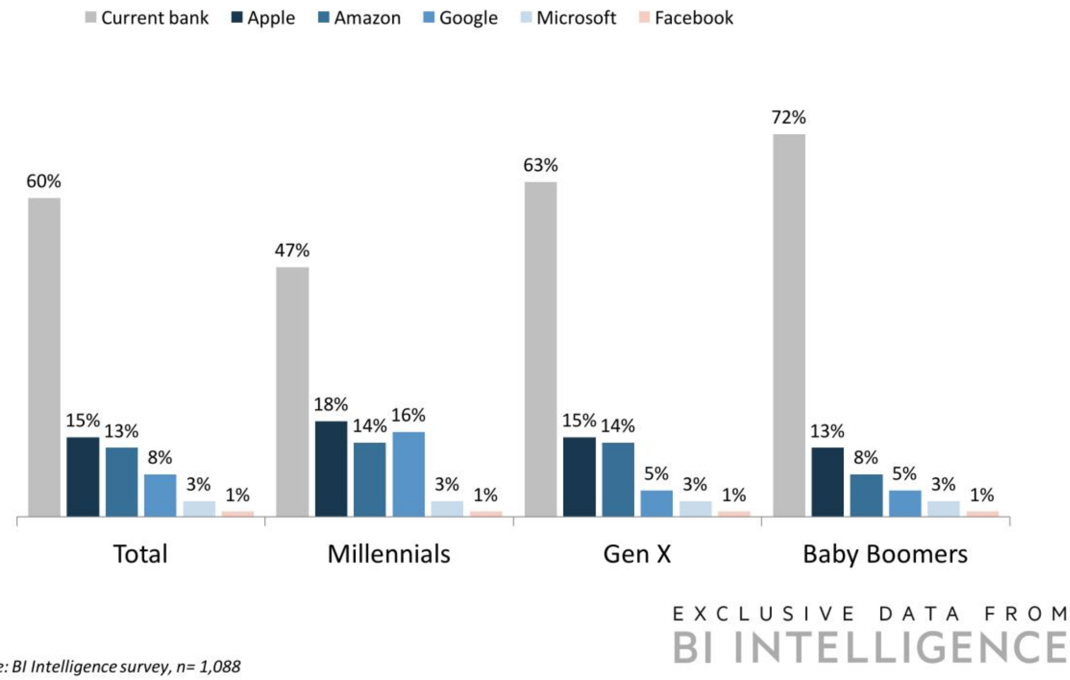
- **It also limits Apple's ability to obtain data from a wide range of consumers.** That's because the company can only amass information on its own users, as opposed to Google and Amazon, which are not limited to specific software or hardware. That hurts its ability to gain consumer insights from the masses. Apple has also historically prioritized user privacy, which limits the data it has access to — for example, Apple Pay does not store sensitive financial data or transaction histories. However, these efforts go a long way in keeping consumers safe from software breaches or the loss of hardware.

Meanwhile, Apple has indicated that it plans to turn iMessage into a robust full-service ecosystem, which could present an opportunity to drive its payments offerings. The messaging service already sees an incredible number of messages, up to 200,000 per second at times, according to Eddy Cue, Apple's SVP of internet software and services. The app now includes Apple's own P2P payments service via its mobile wallet, games, and other apps. Although it hasn't been confirmed, it's reasonable to assume that one feature in the pipeline is the ability to buy products via iMessage. Uptake for a full-service ecosystem via iMessage could be high — Chinese messaging app WeChat, the app that gives consumers access to social, commerce, banking, and payments solutions in one place, now has over 900 million users and controls over 40% of China's $3 trillion mobile payments market.

Moreover, Apple is well positioned to provide a full suite of services in this way, as its strong brand loyalty is likely to make users comfortable adopting such offerings from Apple. Fifteen percent of respondents to our survey stated they would trust Apple the most to offer traditional financial services, the highest among GAFAM. This figure becomes even greater among millennials, reaching 18%, which is quite telling considering that only 47% of millennials would trust their bank.

US Millennials Trust Tech Firms To Provide Them Financial Services More Than Their Bank

Which company would you trust most to provide you financial services, such as checking accounts and loans?



Source: BI Intelligence survey, n= 1,088

FACEBOOK: THE LARGEST REACH

After introducing a P2P payments feature in the US two years ago, Facebook appears to be getting more aggressive in building out its payments services. The messaging platform expanded its P2P capability overseas in November 2017 by launching the feature in the UK, and is reportedly testing out a new feature that will allow users to gift money to others in the form of a digital red envelope — similar to those given out during Chinese New Year — via the company's main website and app, according to Recode. Additionally, a newly published US patent application suggests Facebook could introduce a facial-recognition solution for in-store payments. The company's biggest advantage in pushing its payments offerings is the huge reach of its platform, but it will have to overcome serious consumer trust issues in order to fully benefit from the potential this offers.

Strengths For Facebook In Payments

- **Facebook boasts the largest social app in terms of logged-in users, giving it a massive distribution channel for potential payments services.** The social network's flagship app surpassed 2 billion logged-in users in 2017, topping YouTube's 1.5 billion, WeChat's 889 million, and Twitter's 328 million. Moreover, beyond YouTube, the only apps to claim over 1 billion users are Facebook's WhatsApp and Messenger. And Facebook-owned Instagram could very well join that club soon, as it currently has more than 700 million users.

- **It has over 100,000 Messenger chatbots on its platform, which could give the firm an avenue to gain valuable insights on consumers' commerce and payment habits.** Major companies are leveraging Facebook chatbots to engage with users and help them complete transactions — remittance heavyweights MoneyGram and Western Union both unveiled new Messenger chatbots in 2017 that gave US users the ability to make digital money transfers, for example. By analyzing consumers' messages via these chatbots, Facebook could prompt users to perform tasks they do regularly, like pay a monthly bill, potentially through its own proprietary service.

Potential Weaknesses And Inhibitors

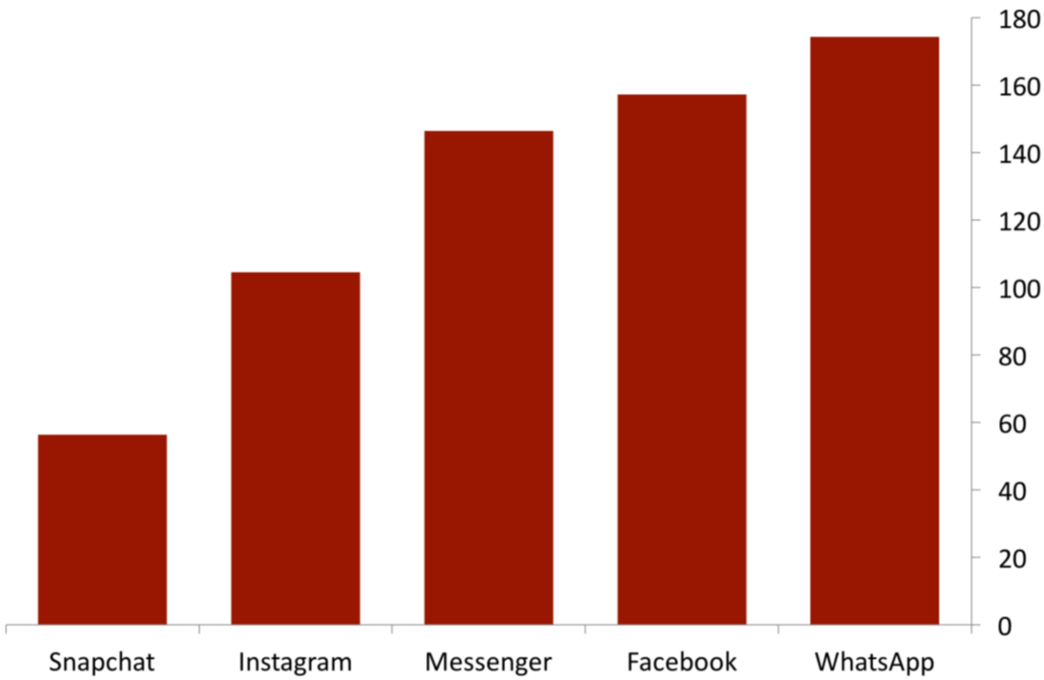
- **There is extremely low trust in the company to offer financial services.** Facebook came in well behind the rest of GAFAM in our survey, with less than 1% of respondents saying they would trust the social platform most. This lack of trust is consistent across age groups, meaning the company doesn't even have an edge with younger, digitally savvy consumers.

- **Facebook's payments offerings are much weaker than those of Amazon, Google, and Apple.** Beyond facilitating P2P transactions, Facebook doesn't yet offer much else in the way of payments, with many of its potential offerings remaining in development. And although it just recently partnered with Toronto-based fintech company Clearbanc to give SMBs loans for advertising — these loans are paid back via a fixed fee based on the company's business data and don't affect credit scores, enabling SMBs in the US and Canada to grow and scale quickly — the feature was only introduced in October, which makes it too early to analyze its effectiveness.

If the firm were to introduce its own payments solution and build out its commerce functionality, it could see massive volume on its platform. That's because, in addition to billions of social users, Facebook's platform has a large number of businesses that use it as a tool to reach consumers — there are more than 20 million businesses responding to messages every month on Facebook. The firm also added Marketplace, which is similar to Craigslist, and connects buyers who are looking for goods with sellers. If Facebook introduced its own payments feature, such as a Facebook digital wallet, it could see massive payments volume by connecting this social base and the millions of businesses on its platform. This would also result in increased engagement on Facebook, building up its core business. And with more customers adding their payment data to the platform and completing transactions, trust in the platform to provide financial offerings would likely improve significantly.

Top 5 Apps By Global Downloads

Google Play and iOS App Store, Q3 2017, in millions



Note: Does not include Android downloads for China.
Source: Sensor Tower, 2017.

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MICROSOFT: A LONG SHOT

Compared with the other four GAFAM companies, Microsoft hasn't gone very far in building out its payments ecosystem. The company currently only offers a mobile wallet that's integrated with Windows smartphones and Microsoft Edge, and an online wallet for quick checkouts. And given its small market share in the global smartphone market, as well as a lack of a clear commerce channel, Microsoft is likely behind much of its tech rivals in the payments space. However, the company has a healthy balance sheet and a demonstrated willingness to spend its cash, which could help it catch up in this competitive space.

Strengths For Microsoft In Payments

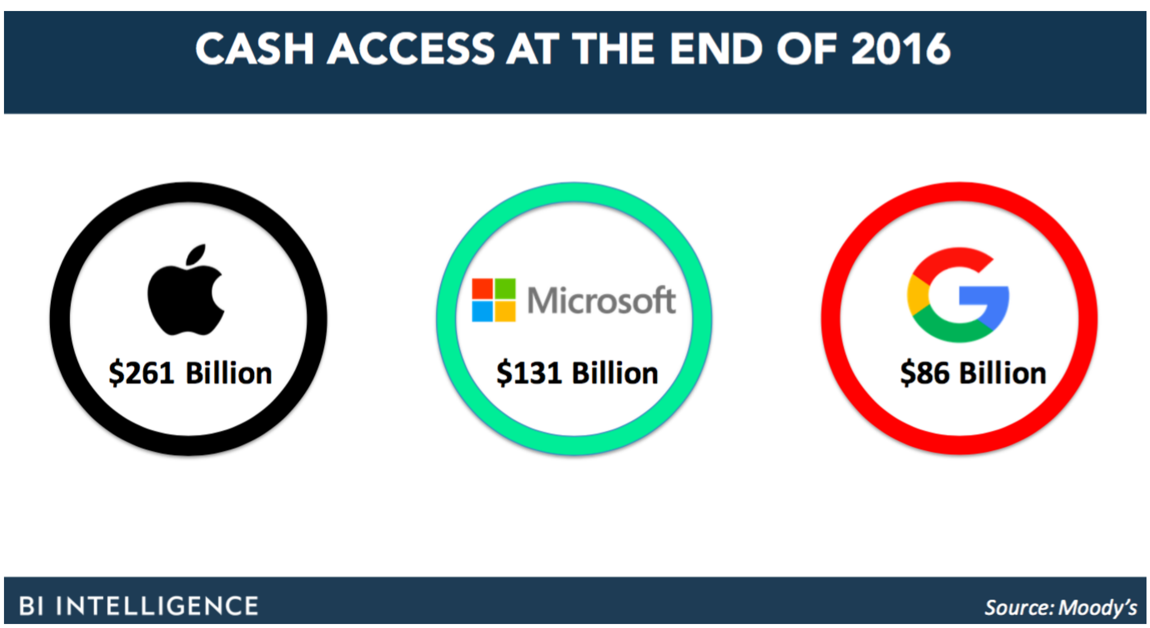
- **Microsoft has one of the most diverse product portfolios of any tech firm in the world.** The company offers a wide range of cloud-based services including Bing, Microsoft Dynamics CRM Online, Microsoft Office 365, OneDrive, Skype, and Xbox Live. The portfolio of products and services also includes business solution applications, desktop and server management tools, and software development tools. Additionally, Microsoft designs and sells hardware including PCs, tablets, gaming and entertainment consoles, and phones. Moreover, its Windows operating system is the most widely used globally, and Bing is the second-most popular search engine after Google. A diverse portfolio could enable the firm to integrate new payments options with a wide array of products, essentially giving it a testing ground to see what consumers are most interested in.

- **It has access to enough capital to build out an extensive payments network.** At the end of 2016, Microsoft held $131 billion in cash, according to Moody's data cited by CNN. This level of liquidity gives Microsoft the flexibility to try different approaches when attempting to carve out a space in a new industry. That means the company can take advantage of a bevvy of options when it comes to creating a payments ecosystem, from building out its offerings in-house, to acquiring a financial startup or seeking out partnerships in the space. And it can pursue these paths without the pressure to show results quickly.

Potential Weaknesses And Inhibitors

- **A lack of trust in Microsoft to offer financial services could result in low uptake for its offerings.** As with Facebook, consumers simply don't trust Microsoft to offer them financial products, with only 3% of respondents to our survey saying they would trust the tech company most to offer these services. This may be a reflection of Microsoft taking some hits to its reputation, due to technical issues with Windows applications and numerous security issues that the company's software has faced.

However, Microsoft has proven that it's willing to leverage its healthy balance sheet to improve its overall business. In 2016, the company flashed its deep pockets and improved consumer trust by acquiring LinkedIn for $26 billion. Notably, LinkedIn ranked as the most trusted platform in BI Intelligence’s Digital Trust survey, which gathered consumer perceptions of the six largest social networks on security, legitimacy, community, user experience, and shareability. Microsoft could make a similar move by acquiring a player in the financial service industry, potentially increasing consumer confidence in the company's ability to offer trustworthy services.



POTENTIAL BARRIERS FOR GAFAM

Despite the heft of these companies, and their clear interest in disrupting payments, it's important to acknowledge the difficulties they're likely to face in breaking into financial services. Many of these firms have been around for decades, affording them ample time to carve out a significant stake in finance — and yet they haven't. That's likely due to several barriers, which have insulated the finance industry from such disruption.

Regulation

If tech giants want to take on banks by offering all of the same services, they will either need to be granted a banking charter, or partner with one of their potential competitors to leverage one. The former scenario, however, would require lawmakers to rethink the restrictions they have placed on the combination of commerce and banking. US law currently separates banking and commerce, making it very difficult for companies that perform commerce activities to hold a banking charter.

There are alternative charters that appear to specifically target companies like GAFAM, but they're very difficult to obtain. For example, firms can apply to become an industrial-loan company (ILC). ILCs aren't considered banks, but they are empowered to offer many of the same services, like loans, and are free to accept deposits. These financial companies can be owned and controlled by a corporation that works outside the banking sector, and parent companies aren't under the supervision of federal banking regulators, such as the Federal Reserve, the FDIC, or the Office of the Comptroller of the Currency. Instead, regulators' oversight extends only to the banking subsidiary. However, since 2013, no ILC application for deposit insurance has been approved, according to American Banker. Walmart tried to obtain such a charter in 2005, but gave up in 2007 after facing tremendous backlash.

Additionally, tech firms would need to meet regulatory requirements regarding data, security, antifraud protection, and even marketing practices. This would likely eat into already tight profit margins on their new products, as they'll need time to convince a significant number of consumers to adopt their services. Regulatory scrutiny could also extend to these companies' core businesses, hurting their ability to operate.

Legacy Juggernauts

Just as JPMorgan Chase would have difficulty competing in the e-commerce industry, companies like Amazon are in for a tough fight in the financial space. The strength of financial incumbents can be illustrated by taking a look at three of the US' largest banks — Chase, Bank of America (BofA), and Wells Fargo — all of which boast massive empires and entrenched positions capable of withstanding disruption:

- **These firms have a long legacy in financial services.** Combined, the banks' histories span centuries, making them not only leaders in financial services, but also foundational pillars of the industry itself. Both Chase and Wells Fargo were founded in the 1800s.

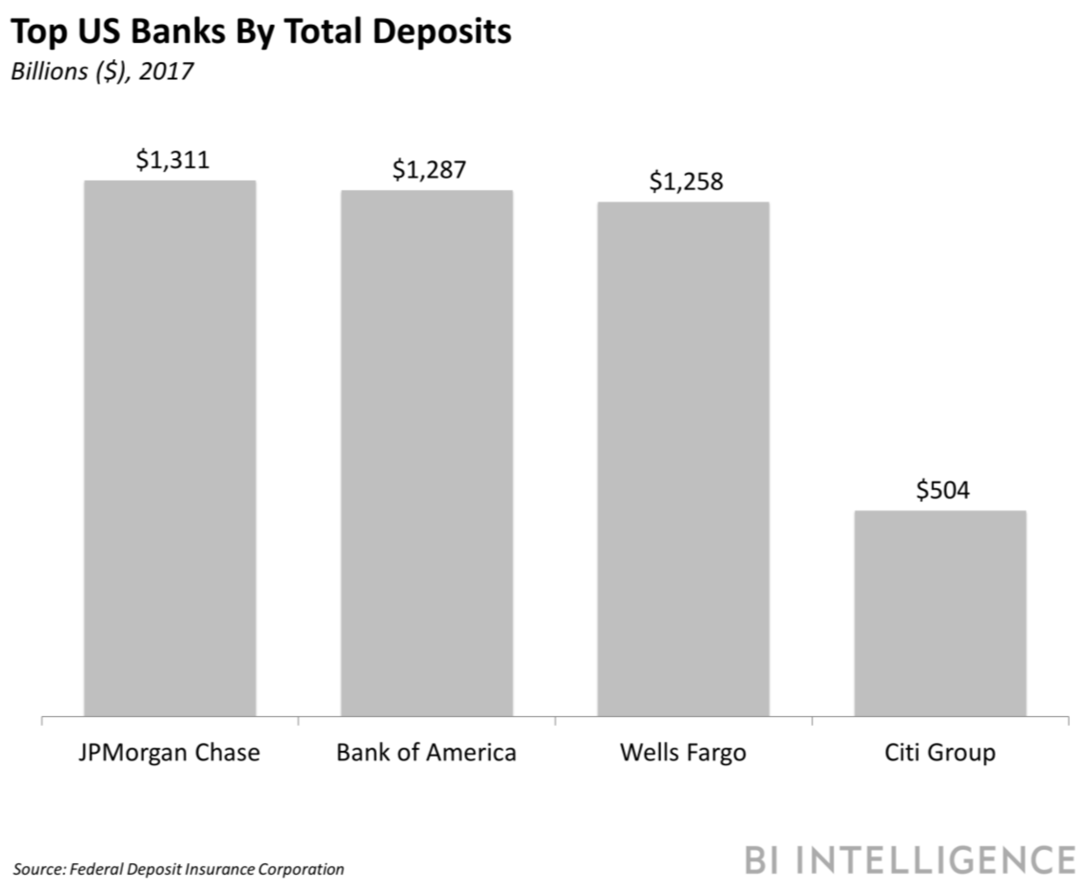
- **They have millions of customers who have built strong habits around the use of traditional banking services, such as being able to deposit money into an account.** For example, together, the banks have roughly $3.8 trillion in total deposits, according to data from the Federal Deposit Insurance Corporation cited by The Charlotte Observer.

- **All three boast impressive digital banking channels,** which could mitigate the threat posed by tech giants. Chase now counts 29.3 million active mobile banking users, and BofA has 34.5 million digital banking users, with 23.6 million on mobile. Meanwhile, Wells Fargo has reached 27.8 million digital users, with 23.6 million on mobile.

It's important to note that competition won't just come from these behemoths. There are thousands of banks and credit unions spread throughout the country that have built strong and longstanding relationships with their local customer bases. Additionally, fintechs are becoming strong players in the space as they attract more investments, push into new markets, and force the world's largest banks to adapt, adding further to the already crowded landscape.

Consumer Trust

We've discussed trust as a strength for several members of GAFAM, but when compared with banks, these players are overmatched. In fact, 60% of respondents to BI Intelligence's survey stated they would trust their current banks to provide them financial services, such as loans or checking accounts, over GAFAM. Moreover, 56% of Chase customers, 58% of BofA customers, and 60% of Wells Fargo customers trust their banks most to offer banking services. This likely comes down to the long legacy of these firms, and their dedicated focus on financial services.



US Consumers Trust Big Banks To Provide Them Financial Services

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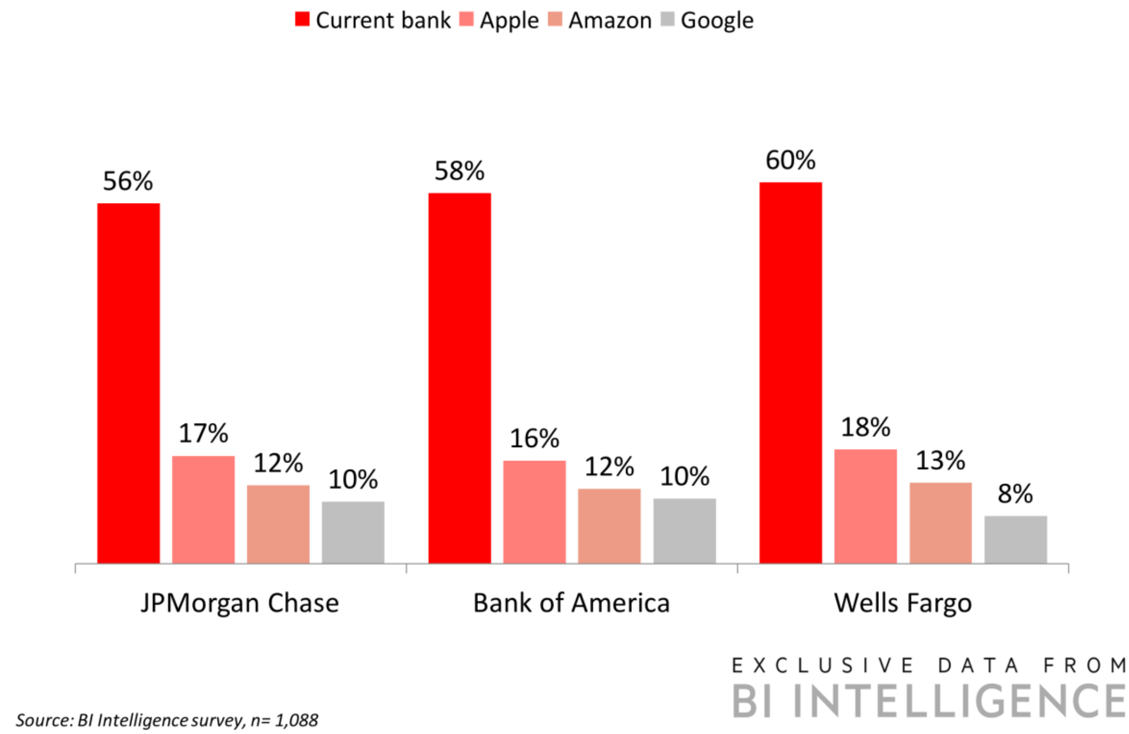

Source: BI Intelligence survey, n= 1,088

GAFAM'S FUTURE IN FINANCIAL SERVICES

While it may be unrealistic to think that the banking system will soon be overrun and transformed by GAFAM, it would also be naive to believe these firms won't have an impact. The most likely outcome is that tech giants will eat into very specific segments of the financial industry, without ever actually applying for a charter.

This will be accomplished in two ways: by building out financial capabilities that won't be met with regulation, and by partnering with small firms, such as fintechs, to leverage their services. This will enable these tech companies to increasingly take over the consumer experience in certain segments and deplete the brand awareness of traditional financial firms. Here's a look at the most imminent threats posed by GAFAM in financial services:

- **Tech firms' digital payments ecosystems will reduce the brand awareness of card issuers, and could eventually cut them out of the transaction chain.** For example, once consumers add their payment information to Apple's mobile wallet, card issuers lose some brand awareness. That's because when users make payments, they won't primarily associate the experience with their banks or card networks, but with Apple. And as Apple builds out this ecosystem and its capabilities, eventually consumers will no longer have to add their bank cards or checking accounts. In fact, Apple's recently introduced Apple Pay Cash already enables users to add money to a prepaid card that can be used to make mobile wallet payments, cutting out traditional issuers and card networks. Other tech giants will likely follow a similar path, meaning banks could lose a growing sliver of card transactions, a core piece of their business.

- **Tech giants will also likely continue to eat into small business loans.** Companies like Amazon, PayPal, and Square have already proven that tech companies can thrive in the SMB loan space. These firms benefit from data obtained from their merchants that they can use to better measure risk when issuing loans, and are little hindered by regulation in this area. As a result, they're able to give out more loans, faster than incumbents because they rely on real financial data and aren't constrained by an applicant's credit score. In the future, these companies are likely to increasingly siphon business away from traditional channels as they continue to build out their loan offerings. In particular, Amazon could seek out a partnership with a financial firm to expand its SMB loan offerings, just as it sought to offer student loans by partnering with Wells Fargo.

Banks will need to be proactive in staving off the threat from GAFAM by continuing to build out their digital channels, taking a strategic approach to partnering with these tech giants, and upping their investments in fintechs:

- **Digital channels will play an important role in mitigating the threat posed by GAFAM.** The digital-first nature of these companies is a major differentiator, and banks will have a tough time competing on this front unless they stay aggressive. Beyond offering digital banking, banks must seek out opportunities to incorporate popular features to engage with their customer base. One way to do this is by leveraging services like Zelle, the bank-based P2P offering. Zelle has 20 banking partners, including major banks such as JPMorgan Chase and BofA, allowing it to reach 85 million users — in Q3 2017, the network saw 60 million payments worth $17.5 billion, and it continues to grow, counting 65,000 daily signups.

- **Banks must be willing to partner with tech giants, even if it means losing brand awareness.** Banks will have to find ways to reach consumers where they frequently spend time, and this is often on the platforms and technology of tech companies. As a result, banks need to partner with the likes of Facebook, Apple, and Google to offer their users convenient banking options via Messenger and iMessage, as well as integrate services with Apple Pay and Android Pay. Beyond engaging users, direct partnerships are also a way to push financial products — Chase recently partnered with Amazon on a new rewards card, for example, essentially affording the bank access to millions of loyal and habitual shoppers. Moreover, banks should seek out these partnerships before they are left out — rather than waiting for tech competitors to make a dent in small business loans, for instance, banks would do well to sacrifice brand awareness by partnering with a tech firm to issue loans, thereby protecting revenue.

- **Banks should stay committed to investing in and partnering with fintechs to stay ahead of disruption.** We have seen major banks building out their artificial intelligence (AI) capabilities, voice payments technology, and biometric authentication by working with fintechs. In fact, Chase CEO Jamie Dimon pointed out that ongoing fintech investment drove the firm's strong performance in 2016. He revealed that the bank spent more than $9.5 billion in 2016 on technology, $600 million of which went to "emerging fintech solutions" in areas including big data, machine learning, and cybersecurity. Dimon also mentioned that partnerships with fintechs — including OnDeck, Roostify, and Symphony — were key to improving the bank's consumer offerings. These types of investments and partnerships must remain at the forefront for banks, not only to hold off tech challengers, but to also stay competitive against each other.

THE BOTTOM LINE

- Google, Apple, Facebook, Amazon, and Microsoft, or GAFAM, are gaining recognition as the next potential payments disruptors.

- And given the broad reach and hefty resources of GAFAM, they could have a major impact not only on the payments industry, but on the overall financial market as well.

- However, the financial sector is strictly regulated, making entry difficult. And firms that do manage to enter the space face stiff competition and a battle to win consumer trust.

- It's more likely that GAFAM will make a dent in very specific segments of the financial services industry, including card payments and SMB loans.

- Legacy players will have to move quickly to mitigate the looming threat posed by GAFAM, likely via partnerships with the tech giants themselves, or by working with or acquiring fintechs.

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