

The growing clout of e-commerce titans in the retail banking industry

Whilst Amazon grabbed global headlines with its \$13.7b acquisition of Whole Foods last year, banks also paid close attention to a less ballyhooed development: the e-commerce powerhouse has been building up a range of financial products, including Amazon Cash, as well as a billion-dollar lending operation for small businesses. Some banks might think of disruptive fintech firms as their greatest emerging threat, but well-trusted and well-oiled platforms like Amazon and Alibaba could soon pose a formidable challenge to banks in retail banking, according to analysts.

“It turns out that retail banking is being upended not by nimble fintech startups, but by established tech firms,” said Gerard du Toit, partner at Bain & Company. “Many of the tech giants possess the ingredients of success: digital prowess, large customer bases, organisations well versed in improving the customer experience, and ample leeway to extend their corporate brands into banking,” he noted.

Asian e-commerce behemoths like Alibaba and Tencent are starting to break into banking. du Toit said that Alibaba has built up the world’s largest money-market fund, issuing \$96b of loans in five years,

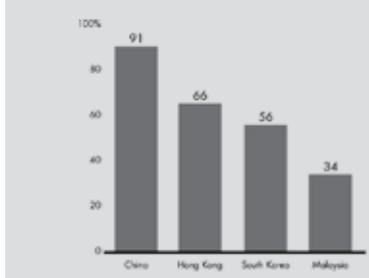
and its Ant Financial has ballooned to a market capitalisation close to that of the ninth-largest bank in the US. It has also established the online bank MYbank, which boasts of instant loan approvals by assessing consumers’ financial history with the Alibaba platform.

“Demand for alternatives to traditional banks will only grow, as younger respondents in our survey showed the greatest willingness to try these offerings,” said du Toit, citing a Bain & Company survey asking more than 100,000 consumers in 22 countries. “Given that Amazon, Alibaba, and others already sell payment services, credit cards, and loans, it’s plausible that they will offer a suite of retail banking services in the near future,” said du Toit.

Are banks threatened?

Top technology firms also benefit from the comparatively high trust placed on them when it comes to financial transactions, dulling a key competitive edge that traditional banks has long held. “Should banks worry? They do appear to be vulnerable to losing the special status they once enjoyed,” said du Toit, citing how US and UK consumers ranked PayPal and Amazon nearly as high as banks for trust

Respondents who are using third-party payment apps



Source: Bain/Research New Customer Loyalty in Retail Banking Survey 2017

with their money.

Banks are starting to find increasing competition for customers and profits from platform companies like Alibaba, Amazon, and Tencent, said Miklós Gábor Dietz, senior partner at McKinsey. “The idea of fintechs as a threat to retail banking might be receding. But the new strategies adopted by the aforementioned platform companies are even more challenging for incumbent banks,” Dietz said.

The strength of platform companies is that they create “ecosystems” that reduce customers’ costs, increase convenience, provide them with new experiences, and whet their appetites for more. “Not only do they have exceptional data that they exploit with remarkable effectiveness; they are also often more central in the customer journeys including big financial decisions,” said Dietz.

COUNTRY WATCH

South Korean banks’ ASEAN push

When Shinhan Bank acquired Indonesian bank Centratama Nasional Bank in 2016 as well as the Australia and New Zealand Banking Group’s retail business in Vietnam in 2017, the bank was driven by a hunger for higher profits and more lucrative growth markets. The low interest rate environment at home and rising competition from online banks have pushed South Korean lenders to expand abroad. Shinhan Bank Vietnam said it posted a “low” non-performing loan ratio of less than 1% and “good” credit growth of 12.8% in 2016.

As South Korean banks seek growth in other countries, Southeast Asia has been particularly appealing, especially in countries where their corporate customers are also expanding footprint. Vietnam has attracted not only Shinhan Bank, but also Korea Development Bank and Woori Bank, with the former cementing a comprehensive cooperation agreement with Commercial Joint Stock Bank and the latter launching an overseas unit. South Korean investments in Vietnam reached more than \$6b in August 2017, making it

the largest foreign investor in the country, representing more than a quarter of the total, according to data from Vietnam’s Foreign Investment Agency.

South Korean banks also plan to expand in Indonesia, where KEB Hana Bank has increased its presence to at least 59 offices in 11 provinces in Indonesia, as well as in the Philippines, where KB Kookmin plans to open its first branch to follow in the footsteps of Woori and Shinhan. Moreover, KEB Hana Bank, Kookmin Bank, and Shinhan Bank have reduced the number of their domestic branches by 15% as of June 2017 compared to the peak at the end of 2012, according to a Moody’s report.

In December 2017, Moody’s upgraded its outlook on Shinhan Bank and KEB Hana Bank to stable from negative due to an absence in asset quality deterioration or profitability that the agency was previously concerned about. “Moody’s expects that these banks’ liquidity, funding and capitalization will remain stable at current levels over the outlook period.”



South Korean banks to venture overseas



Rising competition from online banks