THINK ACT

POINT OF VIEW

RETAIL BANKING

The coming revolution

Roland Berger Strategy Consultants

Microsoft founder Bill Gates is said to have stated, somewhat arrogantly, that the world needs bankers but not banks. His enterprising constant rival Apple may be about to prove his point. For Apple has just unveiled the banking model of the 21st century. This will team up the means of payment with digital mobility, currently in the form of the smartphone.

Apple has just signed up to a partnership with the major credit card operators (Visa, Mastercard, American Express) to turn smartphones into credit cards, rather as though credit cards had all of a sudden slid beneath the batteries of tablets or phones. Big American retail chains such as McDonald's are backing this move. This strategic push is decisive. Without letting on, Apple had already become one of the world's biggest bankers, via its Apple Store and iTunes outlets.

Transforming mobile devices into banking channels

It will now be venturing further down that road by transforming its devices into banking channels. Transactions will use various techniques such as Near Field Communication (NFC) and IT code exchanges (QR codes), although banking transactions between private individuals will not be possible at this stage. But of course, this is just the start. Apple will turn into a full-scale bank. And it is also entering another new realm – personal identification. Behind a client's credit card and banking capacity lie all the elements needed for personal ID. In other words, ID cards are going to follow credit cards into our phones. So rather than just a watch, Apple has in fact announced the creation of a unique, potentially very lucrative financial infrastructure. By making a 0.15% charge on each transaction, Apple is creating a multi-billion dollar market. Strictly speaking, this is partly a value transfer away from fraud, which accounts for $5.5bn in the US, given its non-secured infrastructure (US credit cards do not yet use electronic chips), and partly a recompense for the increased power that Apple is giving the credit card operators.

Dangers for the traditional banks

Traditional banks are currently facing a difficult deflationary context, and they have to juxtapose two networks – a physical network of branches and a digital one. The maintenance of the physical network is legitimate, responding as it does to the need for local services. It is in this context that Apple has caught the banking world on the hop by doing without a physical network for its new scheme. That was, incidentally, already the case for the credit cards that are now part of that set-up. Who has ever seen a high street branch of Visa, Mastercard or American Express, even though credit cards are a banking instrument? Apple has transformed a device issued by a financial institution (the credit card) into a full-scale bank. Thus, Apple is becoming a global market infrastructure, or a banking protocol, associated with which are all the products and services in which it trades. But there is something else - Apple has stolen a march on the fledgling bank activities of other digital retail chains, search engines and social networks such as Amazon, Google and Facebook. Given their data accumulation and their user parameters, they might have been expected to move into the banking field through "wallets" designed to stimulate transactions. So Apple has unexpectedly wrong-footed all the electronic wallet initiatives by declaring itself the defender of privacy and dissociating itself from the "big data" approaches that lie at the heart of the wallet model. And indeed, Apple does not know what you are buying, and the trader does not have access to your personal or financial data. Only the credit card operators are able to monitor transactions and refine their marketing approaches.

Obviously, the traditional banks are not going to take this lying down, as a defensive attitude would prove fatal to them. Various initiatives can be discerned – the creation of digital banks and product offers, credit card partnerships with traders (such as Beobank's scheme with Q8, Brico etc.), or the partnership between several Belgian banks and Proximus (Sixdots). But they will need to go further and faster, as Apple controls the channel through which billions of banking transactions are going to be made. Indeed, we may well ask where banking's future centre of gravity will lie – in a bank, within the telecoms operators that enable digital exchanges (such as Proximus) or within those who control the telecom-based media?

Future role of traditional banking operators

In conclusion, Apple is creating a new banking ecosystem that superimposes IT media on banking flows, with the backing of the credit card issuers and major retail chains. This poses a risk to traditional banking operators. The risk is that they will lose their insight into their customers' transactions and hence their ability to maintain customer loyalty. What is more, even if Apple has declared that it does not want to take on the traditional banks, it could well reduce their societal role to providing services of lower added value. Looking beyond these developments, the real issue is the value of a banking licence. Its cost has been rising as regulation grows, whereas its field of applicability is shrinking down to just the credit cycle. But even there, the credit card operators have developed more and more refined scoring tools, into which they feed information that they alone now possess. In fact, are the traditional banks not at risk of losing their function as the creators of cash flow? Might not sectoral or commercial currencies be launched by big retail chains, underpinned by market infrastructures like the one that Apple is building? Will the traditional banks' de facto oligopoly survive the individualisation of banking channels, given the changes in the barriers to IT entry? These are important questions. Even though the answers may still seem remote, they are part of a real future and should not be written off as mere stargazing.

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