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SPEED READ

- Implications after Facebook acquires WhatsApp
- Apple Pay is already on the way
- Google toys with idea of digital currency
- Banks' next move will be closely monitored

MARCH OF THE CHALLENGERS

With trust in the financial services sector still low and mobile technology on the advance, IAN HENDERSON and JONATHAN HIRSHLER explain why there's little to stop companies like Google, Apple and Facebook from offering an alternative to traditional banking services.

Earlier this year, Facebook made waves by paying $4 billion in cash and an additional $12 billion in stock to purchase messaging platform WhatsApp. This was the biggest acquisition in Facebook's history and the second biggest tech space acquisition of all time, topped only by HP's purchase of Compaq for $25 billion back at the height of the dotcom bubble.

There are a number of theories as to why Facebook paid such a high figure for WhatsApp – the most obvious being its substantial user base of 600 million users. Others include Facebook's plans to monetise the app by serving ads or utilising its data to add to the insights Facebook already has on each of its 1.2 billion active monthly users.

A more interesting angle was presented last February at Deloitte's annual media technology predictions showcase at Google Campus, where Barclays Techstars MD Greg Rogers suggested Facebook could be planning to use WhatsApp as a remittance engine.

IS FACEBANK ON THE CARDS?

This would enable the service to send small peer-to-peer payments to known friends and family. Technologically, the developments required to re-purpose WhatsApp to send and receive payments are minimal and could be achieved with very little investment. Competitors like WeChat have already achieved this using an add-on service called 'red envelope'.

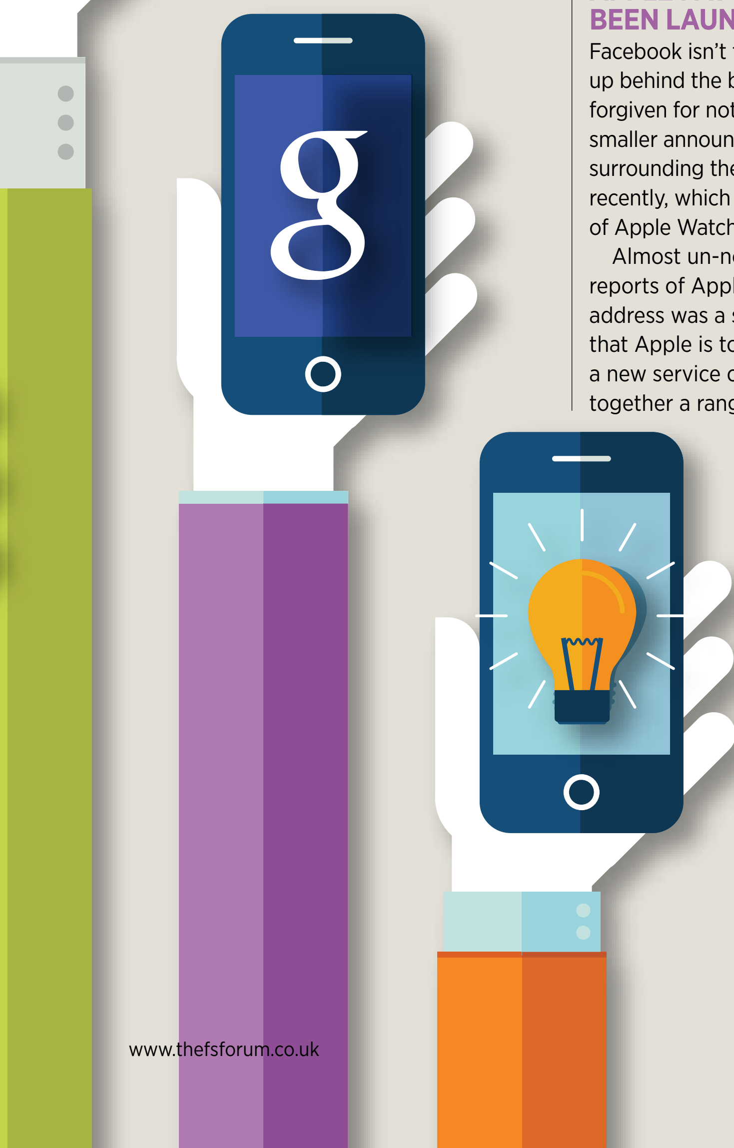
This idea takes on even more traction when you consider that, in Africa and parts of Asia, smartphones are on the rise and are more affordable and practical than tablets, laptops and desktops. There's also a strong argument that regulation is much more relaxed in these regions in comparison to the EU or US markets – perfect conditions

'INVESTING IN A POPULAR SOCIAL PLATFORM COULD HELP SOLVE SOME OF THE REPUTATIONAL PROBLEMS BANKS HAVE IN CONNECTING BETTER WITH THEIR CUSTOMERS.'

for trialing a rollout of these services.

In the Far East, a mixture of high volumes of mobile messaging users mixed with social customs that make it vulgar to hand over money in physical form has the potential to monetise Facebook's new toy beyond any value detractors of this deal could have considered. The initial prize up for grabs is a very lucrative slice of the global transfer market, worth between $500 billion and $10 trillion each year according to the Word Bank.

At April's FSF Technology Conference, Facebook's Head of Financial Services UK & EMEA, Lee Jay Burningham, was asked if the company's purchase of WhatsApp was the first step towards entering the financial services industry as a mobile payment/remittance provider. Lee's response was a pretty emphatic 'No, Zuck isn't interested in that. The purchase of WhatsApp is a move aimed at opening out new regions, particularly in the Third World where we can spread our existing services and help make a difference.'



While this is very much in line with 'Zuck's' ambitions of helping the next two billion people make it onto the Internet, Burningham's response came in the same week as the *Financial Times* reported that Facebook was already in talks with several consumer-facing payment companies, including TransferWise, Moni Technologies and Azimo. This all suggests that 'FaceBank' may be closer than outsiders think.

APPLE PAY HAS ALREADY BEEN LAUNCHED

Facebook isn't the only tech giant sneaking up behind the banks. You would be forgiven for not noticing Apple tucking a smaller announcement behind the fanfare surrounding their latest product launches recently, which trumpeted a new range of Apple Watches and the iPhone 6.

Almost un-noticed by the majority of reports of Apple CEO Tim Cook's keynote address was a separate announcement that Apple is to begin the US roll-out of a new service called Apple Pay. This brings together a range of partnerships with card providers, retailers and banks and is different from previous contactless payment systems, in that it is based instead on near field communication technology, or NFC – a bit like a contactless credit card.

Like many technologies on which Apple has built its success, NFC isn't new. But it is only now beginning to take a hold, partly due to the introduction of fingerprint technology on iPhones, ensuring that a stolen phone with payment protocols activated will not immediately give up sensitive payment information. Apple has already partnered with the six biggest banks in the US, covering 83% of total US payment volume, and similar UK deals are in the making.

NEW COMPETITION FOR BITCOIN

Since 2006, Google has been making headway into online payments, with Google Checkout an initial attempt to eat into PayPal's dominance of the sector. From November 2013, this service was superseded by Google Wallet, which now leads the search engine's plans for a play into the financial services arena. Using Wallet, Google has already made inroads into mobile payments and has registered as a payment provider in the UK, in a move similar to the regulatory approval Facebook requested in Ireland earlier in the year.

Amid rumours that Google has been toying with the idea of offering services akin to being a retail bank, Google has been planning the launch of its own digital currency as a possible challenger to Bitcoin. With its own Android marketplace, Google Play, a possible test bed for a new Google currency, it would have the foundations in depth and mass audience to potentially succeed where Bitcoin has not yet made the mainstream.

IT'S NOT JUST THE GIANTS

Opportunities are also presented for new players to enter the market. Companies like New Delhi-based Oxigen are being launched to turn your smartphone into a mobile ►

'APPLE HAS ALREADY PARTNERED WITH THE SIX BIGGEST BANKS IN THE US AND SIMILAR UK DEALS ARE IN THE MAKING.'


► wallet by allowing users to transfer money and make purchases for others via social networks and messaging platforms like Facebook, Google+ and Twitter.

Already processing over half a billion transactions annually, Oxigen is initially targeted at younger users who want to split restaurant bills, top-up mobile accounts and make bill payments.

There are many other market disruptors, too numerous to list, all the way from social media monitoring that aims to predict market moves (SNTMNT), to phone companies that launch money transfers (Lebara), to an asset management industry ripe for disintermediation, accelerated by regulatory change as well as technology.

DON'T BANK ON TECHNOLOGY ALONE

So, does the rise of mobile payments mean the death of the bank? A more detailed look at the current moves in the financial technology sector suggests there's life in the old banks yet.

'WE CAN EXPECT TO SEE SOME GAME-CHANGING DEALS TAKING PLACE.'

For one thing, it will take a tectonic shift to convince customers to move their money away from the institutions which they have trusted – albeit grudgingly, especially in recent years – to keep their money safe. The last time a shift of this scale occurred was in the 18th and 19th centuries, when banks first convinced the public that their money was safer and more valuable in the long run invested in the bank vault rather than tucked under a mattress.

Technology companies are doing all the running at the moment. But it won't be long before the initiative switches back to the banks and, when this happens, we can expect to see some game-changing deals taking place. The question on the lips of analysts at the moment is what will the picture look like in three to five years and which bank will position itself in the driving seat fastest by partnering with mobile payment providers in order to draw upon their technology platforms and mass audiences.

THE FIGHT FOR YOUR WALLET

In a number of cases, investing in a popular social platform could help solve some of the reputational problems banks have in being seen as approachable and connecting better with their customers. If you consider the number of banks currently building their advertising campaigns on the basis of 'the bank that listens' or 'the bank you can talk to', it's easy to see how useful an acquisition of this nature could be.

Global banks such as HSBC and Banco Vizcaya Argentina have started to invest heavily in the tech sector by developing in-house venture capital funds to directly finance budding technology companies, with funds ranging from $50 million to $250 million. But this may not be fast enough to keep up with the speed of innovation in the sector. The expectation is that we will see some mega-deals over the next three years, involving mergers or joint ventures between some of the giant global banking institutions and technology platforms/networks.

What we know for sure is that technology won't stop evolving, and we will always need to keep our money somewhere safe. Things are about to get interesting.

THE KNOWLEDGE CENTRE

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The Essence of the 'Challenger Spirit': Members of The Financial Services Forum pause for a minute to reflect on two key questions: Where are the opportunities for challenger brands, new ideas and innovation in financial services marketing? And what are the obstacles the challengers will have to overcome?

Sixty Seconds on Technology: Technology is driving innovation more than ever, enabling brands to be proactive in their relationships with customers. Forum members provided their thoughts on ways the industry could harness technological advances to bring ideas more quickly to market and better engage customers through personalisation of contact, among other developments. It seems the possibilities are endless.