



Bauerle's Bank Notes

December 4, 2013

You Heard It Here First

Thirteen years ago, I began writing a column for The Banking Law Journal titled "Technology, Law and Banking." In the second installment, I described the then-new PayPal money transfer service and suggested that it was a competitive threat to established banks, since it bears none of the costs of the infrastructure of the banking system, but skims the margin on funds in transit between PayPal users. Tuesday, the head of BBVA, among the largest financial institutions in South America, agreed.

In a Financial Times opinion piece titled "Banks Need to Take on Amazon and Google or Die," Francisco Gonzalez wrote,

Some bankers and analysts think that Google, Facebook, Amazon or the like will not fully enter a highly regulated, low-margin business such as banking. I disagree. What is more, I think banks that are not prepared for such new competitors face certain death.

Technology has already transformed many industries. Next in line is banking. In two or three years, only 5 percent of customer interaction will be through branches. The rules have changed and a new league of competitors is emerging.

New entrants are free from the legacies of banks: obsolete systems and costly distribution networks. So far, most (PayPal, Square, iZettle, SumUp, Swolla) are seen as niche businesses. However, they may expand or seek alliances. And almost certainly some big names in the digital world, companies with strong brands and millions or billions of users, will jump into the fray.

I couldn't have said it better. I did say it in 2000, and it is worth repeating now. In 2000, I argued that financial regulatory agencies should apply the newly enacted concept of "functional regulation" written into the Gramm Leach Bliley Act to non-bank providers of financial services. Those providers should also bear their share of the economic cost of the financial system.

The legal framework for regulating P-to-P payment systems should . . . insure the safety and soundness of consumer transactions through these systems as well as of the companies operating them, create a reasonable allocation of transaction risk between consumers and P-to-P system operators, establish uniform standards for P-to-P system operation, and create a level playing field among providers.

. . . [A] fresh examination needs to be made by regulators and Congress of other laws and regulations that may disadvantage insured depository institutions in a time when transaction volume is flowing to electronic providers including P-to-P payment system companies.

My reason for bringing this up is not to be self-congratulatory. Rather I seek to engage insured depository institutions in the discussion we are leading through the Black & Gold Financial Team about changes in the industry and how to remain competitive. We are holding our second introductory session of the Black & Gold Financial Team next Wednesday, December 11, 2013 at the Marriott Courtyard Hotel in Monroeville (Bus. Rt. 22 eastbound, behind the Sheetz convenience store). If you haven't already signed up (or attended our November session in Cranberry), please do so today, either by reply e-mail or calling me at 412 355 2644.