Uber Everything

by Steve Brown

The *uberization* of everything is happening right now under our very noses. Amazon's old super market AmazonFresh, is nothing compared to the new customized services that start-ups are inventing by the minute. Consider that now there is an app from Taskrabbit to find help with any imaginable errand and another one from Kudop to help you find a babysitter, cleaning expert or a dog walker in your nieghborhood. Meanwhile, TalkToChef and CHEF CHOPCHOP offer cooking help and recipes; Self-Help Elderly caters to older consumers and HopSkipDrive promises a safe drive for children. There are apps all over the place for mundane activities like driving, eating and cleaning.

Banks are not immune to this *uberization* of everything. As we all saw on 60 Minutes, there are many companies operating in or around the financial sector known as financial technology (fintech) startups. Forbes indicates the existing number of fintech startups is about the same size as the number of banks (roughly 6,000). These tech companies are focused on everything from mobile to payments to data analytics, online lending, bitcoin and a host of other areas.

Their goal is to simplify processes leveraging mobile with an eye toward Millennials as the primary longer term customer base. They are nimble and are moving quickly, because they are not regulated like banks and other financial service providers who are buried in rules and regulations so banks are under pressure.

Consider just those fintech companies focused on online marketplace (also known as peer to peer) lending platforms. Such activities, according to a recent CFPB research piece *connect consumers or businesses who seek to borrow money with investors willing to buy or invest in the loan. In most cases, once a loan is made the platform collects principal and interest payments from borrowers and sends the payments, less certain fees that the platform keeps, to investors*. This is important because the CFPB also recently began collecting consumer and small business feedback and complaints around such platforms, indicating it may soon take more regulatory steps to address this burgeoning area.

For banks monitoring the fintech space, consider that a memo by LendingClub indicates its platform alone has a 60% lower operational cost than banks as a result of its online structure.

Another thing to know as a bank is that online marketplace lenders are gaining ground for a variety of reasons, but one for certain is the shift in demographics. In fact, a Bank of America small business report finds 14% of Millennials have already used marketplace lending platforms. Given this age cohort is now the largest in the workplace, banks have taken notice and ramped up research in order to increase understanding and explore the opportunities and risks.

Speaking of risks, these run the gamut from the risk of fraud (after all these platforms are internet based), cyber, higher potential defaults, regulatory action (disparate impact, etc.), prepayment uncertainties (limited history available), economic cycle problems, funding issues and a host of other potential concerns to address and understand.

So, no matter where you are in the process of better understanding these marketplace lenders, know that the regulators still require banks to follow all regulations. For now at least, online borrowing is not as easy as texting an Uber driver for a pick up.

BANK NEWS

Big Bank Digital

According to Q1 earnings reports, Bank of America reported it has 32.6mm active online banking users and 19.6mm mobile users; JPMorgan reports 18.6mm and 23.8mm; and Wells Fargo reports 27.2mm and 17.7mm, respectively. In total these three banks alone have seen 19% YOY growth in mobile and about 6% in online. Community bankers should be aware when discussing strategic plans around expanding branches and attracting Millennials and Gen X.

Marketplace Regulation

The California Department of Business Oversight has sent letters to about 14 online marketplace lenders, asking a series of questions related to with referral fees, bank partnerships, fair lending and other areas.

Inside Wells Fargo

The bank announced it has launched an online small business loan product called FastFlex. This product targets loans from $10,000 to $35,000 in size, funds the next day, offers up to 1Y in financing and has an interest rate range from 13.99% to 22.99% (based on the creditworthiness of the business). The move comes as small business owners seek faster decision making, as more move online and in direct response to the inroads made by online marketplace lenders.

Less Spending

Forrester Research reports US tech spending is projected to grow 4.3% in 2016 vs. the 4.8% estimated late last year. Economic uncertainties and corporate caution were cited as primary catalysts for the decline.

Inside US Bank

The bank reported mobile is its fastest growing channel and that mobile users are about 10Ys younger than online users. Because of this, US Bank said it now has a team of about 100 people is dedicated to improving the digital experience for its customers.

Data Breaches

The NY Attorney General said in a speech this week that the number of data breach notifications companies send out to residents in the state have jumped 40% this year vs. the same period in 2015.

Biz Loans

A survey of independent businesses by the AIB and ILSR finds the following results for those who sought a loan in the past 2Ys: I found a lender for the full amount (52%), I found a lender but obtained less than the full amount (16%), I could not find a lender willing to lend to me (32%).