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Comparative Analysis of Big Tech's performance in Financial Services

Their Motivations for entering Financial Services, Competitive Advantage and Growth Potential

The Rise of Big Tech in Financial Services

Big Tech firms are said to pose serious competition to banks by offering a unique value proposition to consumers. These firms have the financial resources and digital competencies to develop financial services in multiple areas, as opposed to Fintech companies that usually specialize in a niche market.

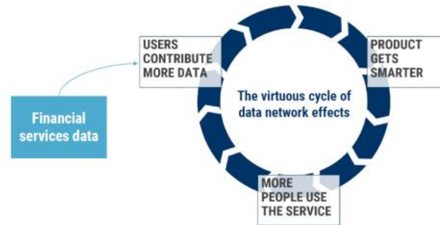
This paper will explore the factors which have contributed to Big Tech's performance in Fintech, compare competencies of key players and shed some light into how this could affect other major stakeholders in the market. In the first section, we will discuss the main reasons which have led to the rise of Big Tech in financial services, namely changing consumer behaviour and demand and the competitive advantages of Big Tech firms.

Demand for a New Financial Service model

Consumer demands have changed rapidly over the past decade. As explained by Ian Pollari, Global Co-Leader of Fintech from KPMG Australia, "a lot of change we are seeing in customer experience expectations is (actually) driven outside of financial services"[1]. In an economy where one can easily shop online and receive an order within a day, compare ride prices and book a taxi within seconds, the 21st century customer craves for control in his life and often makes independent data-driven decisions on a daily basis. This fuels the need for financial services to be more accessible and digestible for the layman – an area which traditional financial institutions lack in and a gap which Big Tech firms seek to fill and capitalise on.

Overarching Competitive Advantages of Big Tech firms

Big Tech firms have access to large databases of user data and are able to gain a better understanding of consumer preferences[2], their needs as well as spending habits through extensive usage of AI and data analytics and the virtuous cycle of data network effects. Tapping into this enables Big Tech firms to develop products and offer services that cater specifically to those demands. Unsurprisingly, this explains why most of Big Tech's financial services lie in payments and lending. Furthermore, Big Tech firms are not liable to the same stringent financial regulations as banks. This, therefore allows them to provide services at lower cost and with less hassle, benefitting both the firm and the consumer. A move into the financial service sector is hence a way for Big Tech firms to diversify their portfolio and leverage on their current capabilities to add value to their main offerings and satisfy consumer needs.



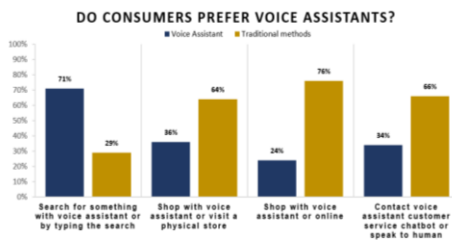
(Source: CbInsights)[2]

Analysis of Key Players and their Unique approaches to providing Financial Services

Amazon's competitive advantage lies in having access to a large amount of merchant and customer data[3], thus allowing them to provide a myriad of different services in payments and loans. Their decision to explore financial services is largely fuelled by their "Day One" philosophy and customer-centric model, so as to provide frictionless payment handling options for both merchants and customers.

There has been a shift from Amazon's original strategy of developing in-house capabilities from scratch, though new initiatives are still consistent with Amazon's customer-centric focus and aim to reduce payment friction. With the "One-click" patent's expiry in 2017, Amazon is looking to diversify its off-platform offers by collaborating with third-party IoT (Eg. Alexa or Siri)[3], as part of a 'gradual voice transition'[4], and POS technology providers. Clearly, they see the value in the retail shopping experience for certain products and the potential of voice technology in reducing payment friction (E.g. The time taken to whip out your phone, unlock it, locate and load the application) and speeding up the payments process (7 minutes online to 2 minutes via voice to book a train ticket with Alexa)[5].

Yet, with reportedly only 2% of customers purchasing from Amazon's Echo device as of 2019, there is evidently a gap in digital readiness required to spur the adoption of voice-assisted purchases[4]– largely stemming from a lack of trust and hesitance to purchase virtual AI assistants due to concerns over whether they are value for money[6]. More consumers still prefer physical and online shops to voice-assisted shopping and out of those who prefer using voice assists, most purchases have been for less costly items such as takeaways and Grab rides[6].



(Source: PwC Consumer Intelligence Series voice assistants survey, 2018)[6]

Amazon also encourages more merchants to join the marketplace by passing on their special card savings to those[7] who use **Amazon Pay**. Amazon can do so and remain profitable due to the large number of transactions that take place on the platform. Apart from Amazon Pay, Amazon is experimenting with other product offerings which seek to address the needs of various target markets and industries. Amazon Go and "Just Walk Out" technology allows customers to simply take the items they need at a grocery store and walk out once they are done, without having to stop by the counter. Amazon Cash enables users to deposit cash or their spare change resulting from retail transactions to a personal digital account by simply presenting a bar code at a partner retail store. This is targeted at the underbanked and unbanked populations with existing retail markets despite many still living without bank accounts and smart phones, as a step towards financial inclusion[8]. In the long run, Amazon Cash seeks to convert these customers by encouraging them to spend their accumulated funds on Amazon's website.

In the area of loans, Amazon is partnering with more banks to handle most of the credit. This frees up merchants from dealing with credit risk concerns. They are also looking to develop an everyday use card for customers with exclusive privileges for card holders. This move is strategic especially when initiated alongside other offerings, as it seeks to provide card holders or Amazon account holders with an integrated one-stop solution that meets most of the consumer's daily needs without ever having to switch to another platform. Through this, Amazon seeks to build brand loyalty by being involved in almost every aspect of a consumer's life i.e. from buying groceries from stores to shopping online and purchasing insurance products.

Amazon: Lessons learnt

Should Amazon continue to seek success in this field, it is vital for them to learn from their failures, such as the downfall of WebPay and Amazon Local Register[4]. Both market assessment of consumer readiness and building trust with merchants and customers are essential to sustain Amazon's business in financial services, especially for products like Amazon Go as existing processes and infrastructure for most grocery stores need to update to Amazon's new model[9].

On another note, Amazon's strong and consistent alignment of new initiatives to their core values is an important learning point for other Big Tech firms venturing into this space. Integration of new financial offerings into a company's existing business model should not be overlooked, or else the firm risks losing sight of its primary value proposition to consumers. Not only has Amazon been quite successful in its alignment of priorities, as evidenced by the promising adoption rates of their financial services, they have also been proactive in identifying untapped markets to capitalize on in hopes of gaining a first mover advantage and more importantly, to expand their marketplace. By doing so, they leverage on their technical competencies and advantage in scale to deliver to a wider audience.

Facebook's user base rivals that of Amazon. The huge and increasing number of Instagram, WhatsApp and Messenger users ensure that

Facebook is able to maintain numerous touchpoints with individuals on a daily basis and keep advertisement prices up. This gives Facebook a competitive edge against her Big Tech rivals as financial services launched via these avenues are likely to enjoy more customer buy-in and acceptance especially since most perceive these applications akin to bread and butter, though admittedly this can only be achieved given that consumers place their trust in the firm to handle their funds.

Facebook has introduced two products thus far, namely Facebook Pay and Libra. In 2015, Facebook Pay's peer-to-peer payment service on Messenger was discontinued in UK and France[10] to resume a focus on the US and other markets with higher demand for the service through partnerships with firms such as PayPal and Stripe[11]. Expensive transfer fees for traditional remittance services, a largely unbanked population and the increase in usage of social media platforms like Facebook, from 34% to 53% in emerging and developing economies from 2013 to 2018[12], justify Facebook's motivation in targeting developing markets with their Fintech solutions[10]. In an attempt to build an integrated one-stop platform for Facebook users and drive adoption of Facebook Pay, Facebook plans to launch Facebook Shops as the firm's response to the ecommerce boom where businesses would be able set up digital stores on the platform to sell their goods[13].

Facebook had planned to launch Libra, a new cryptocurrency, in 2020 to cater to unbanked populations. This move could improve financial inclusion[14] and potentially help to combat hyperinflation[15]. It was designed to be a "stablecoin", defined as a "low volatility currency backed by offline financial assets" and is a "permissioned" blockchain to be regulated by the Libra Association. Unfortunately, the launch had to be postponed to further notice. Authorities were concerned that the use of Libra would undermine currency sovereignty and take away the government's control over the economy since Libra was owned by private companies[16,17]. In addition, there is no legal framework in place to address potential risks and Facebook's past record of inappropriate data usage remains a thorn in their side. Most partner firms including Paypal, Stripe and Visa etc. have also decided to back out of the project. While their reason for doing so was not officially published, it was likely to guard against the possibility of Facebook monopolising their primary business. Supporting Libra would also subject partner firms to intense scrutiny from authorities, making the project too costly to launch.

Facebook: Lessons learnt

Although Facebook's venture into Fintech aligns with her goal of keeping people on the platform for better advertisement money, there has been a noticeable change in Facebook's strategy. They no longer want to be regarded as just a social media company and seek to diversify their revenue stream through ecommerce, instead of relying on advertising revenue. Facebook Pay has the potential to be a formidable force, judging by the huge consumer markets available on her sister platforms. Becoming the next Wechat is a possibility which poses serious competition to both banks and firms like Amazon. Ultimately, what sets Facebook apart from other online marketplaces is the presence of social networks on the platform. Moving forward, this could be an area for businesses to tap into.

With the exit of important partners, Facebook is likely to face harsher regulations if they decide to continue with Libra. There might also be credibility loss[18] as users may not trust Facebook with Libra. With the presence of strong political resistance and legal concerns, it seems that the world is not ready for a "corpocurrency" – a cryptocurrency regulated by corporations. Libra could gain more traction in emerging markets in the presence of less stringent regulations and where there is more demand for alternatives to fiat currency[18]. Interestingly, Facebook's example also highlights the need for Big Tech firms to consider the larger economy and politics. Should Libra experience massive popularity in a country, that country's currency would be traded in extensively for Libra, implicating the currency market. Such considerations are increasingly complex and have far-reaching consequences which will be difficult for Facebook to manage alone as a primarily technology-driven company. Moving forward, it would benefit Big Tech firms and Facebook to work closely with governments and regulatory bodies[19]. While it is not the responsibility of Big Tech firms to engage in political decisions, consensus building with regulatory bodies would enable their innovations to have better market penetration upon launching.

Factors affecting Big Tech's Growth Potential in Financial Services

Adding on to the earlier discussion, the following are some potential opportunities and challenges specific to Big Tech in financial services.

1. Post-COVID regulation of Big Tech

In light of the COVID-19 pandemic, online platforms have become a "digital utility"[20] and have gained even more attention from the public, media and authorities. In efforts to improve contact tracing in America, Google and Apple have started to collaborate with the US government to develop a mobile phone application[21]. What was once heavily criticised and termed as "surveillance capitalism"[22] is now permitted by the government. These recent developments could result in heavier regulations on Big Tech operations post-COVID, as governments and communities realise the true influence these data and technology-driven enterprises have. While the fast-paced digital economy makes assessment of market politics and power play more difficult, authorities have expressed their understanding and commitment to enable flexibility in competition laws[23]. However, on the flip side this could also work against Big Tech firms if regulators decide that access to data from open banking policies should be limited for Big Tech firms. Being subject to scrutiny from financial regulators i.e. Bank for International Settlements for data privacy concerns arising from past scandals, such as Facebook's history with Cambridge Analytica, also means that compliance with regulations is essential in the long run to build consumer trust[19], though this might slow down financial innovation.

2. New Relationships with Banks

Big Tech stands a good chance in replacing front-end bank operations in payments and lending, especially with open banking policies in place. To avoid becoming back-end "commoditised utility providers"[24], banks are taking steps to digitalise their operations. Close to 50% of financial institutions are estimated to have partnerships with Big Tech firms in the upcoming year[25]. This is promising for Big Tech firms as they will be able to take advantage of banks' expertise in financial services and gain access to their customers. It is important to note, however, that such partnerships do come with risks due to third party dependency on cloud services[26] which both banks and Big Tech firms should look to mitigate.

While Big Tech is venturing into checking accounts, banks still have the upper edge as individuals are more inclined to trust banks with sensitive information. It is also harder for firms to prove their credibility in niche areas like investment management, though they have access to a huge millennial customer base[27]. On a side note, although development into financial management is currently out of reach, unexpectedly, more are willing to purchase insurance plans from Big Tech (17% to 36% from 2016 to 2020)[28]. This will pose a huge threat to insurance companies in the near future as it capitalises on millennials' demand for personalised experiences and Big Tech's extensive database that has credit and personal information of users.

3. Issues with Competition

Major players could monopolise the market by exploiting data network effects which could in turn increase switching costs and barriers to entry. Product partnerships with these firms is a possible way to work around this[29].

4. Survivability during economic downturn

As expansion into financial services is mostly at the infancy stage for most Big Tech firms, new models for credit risk assessments have not been put to the test and it is uncertain if Big Tech firms will be able to sustain credit supplies during a recession. Beyond proposing data-driven solutions, Big Tech firms should continue to market personalised experiences and strengthen customer relationships to improve customer retention[29].

In conclusion, an analysis of Amazon and Facebook highlights a key trend. Big Tech firms are seeking to maximise their touchpoints and interactions with the consumer through the introduction of integrated platforms. While this is strategic, they need to invest more effort in building public trust[30] for better market penetration and pay attention to regulatory changes to survive in an ever so volatile political climate and fast-paced digital economy.

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