

TECHNOLOGY

As More Pay by Smartphone, Banks Scramble to Keep Up

By **STEVE LOHR** JAN. 18, 2016

Ryan Craine hates carrying cash and finds writing checks to be a headache. He doesn't do much of either anymore — he mostly uses his smartphone to pay for things.

Mr. Craine, a 28-year-old tech support worker in Washington, D.C., uses Apple Pay at the stores and restaurants that accept it. About 20 times a month, he turns to Venmo, a digital wallet for transferring money from one person to another, to pay his share of rent, meals, groceries and utility bills. To refinance his student loans last year, he went to an online lending start-up, Earnest.

Mr. Craine's money choices point to the millennial-led shift toward new digital financial services, a change in behavior that threatens to upend the consumer banking industry. The popularity of the services has left the major banks rushing to adapt, even as they have regained their footing after the financial crisis.

If the banks fail to meet the challenge, Brian Moynihan, the chief executive of Bank of America, warned in November, "it may allow part of our industry to be forever taken away from us."

Americans in their 20s and early 30s, analysts say, offer a glimpse of tomorrow's banking market. "Their relationship with the financial system is very different — it's an electronic one, on their smartphones," said Mark

Zandi, chief economist at Moody's Analytics. "That can and will be very disruptive to the banking system."

Money is pouring into so-called fintech start-ups. And major technology companies — Apple, Google, Amazon, Facebook and Samsung — are all entering consumer banking, typically starting with digital payment apps.

Investment worldwide in start-ups focused on retail banking markets rose to nearly \$6.8 billion in 2015, according to CB Insights, a research firm. That is more than triple the \$2.2 billion in 2014.

The major banks have all taken steps to address the new reality. Citigroup, for example, has teamed up with Lending Club, an online lender. In October, the bank set up a separate unit, Citi FinTech. In a memo to the staff, Stephen Bird, the new chief executive of global consumer banking, said the bank had reached a "pivotal point," when "technological change is intensifying" and "competitors are everywhere."

In an interview, Mr. Bird called the new unit the "spearhead" of the bank's move into the future. The long-range goal, he said, is to provide an array of banking and money management services that are as effortless to use as ordering and paying for a ride on Uber.

"It's a big opportunity for us if we can move fast enough," Mr. Bird said. "It's both an opportunity and a threat."

While the fintech insurgents are moving and growing quickly, they must overcome big challenges of their own before reshaping the industry. They are still relatively small and niche players in the sprawling retail banking business. They are not deposit-taking institutions, where consumer savings are insured by the government.

They also lack the legal and regulatory apparatus that traditional banks have built over many decades. Already, some of the new services are facing regulatory scrutiny. In November, Apple, Google, Amazon, PayPal and Intuit formed a Washington-based advocacy group, Financial Innovation

Now, to promote policies to “foster greater innovation in financial services.”

Still, some banking habits are changing across the population. In 2010, 40 percent of Americans with bank accounts visited a physical branch once a week, while only 9 percent made a mobile transaction weekly, according to survey research by Javelin Strategy and Research. By 2014, the percentage reporting weekly visits to bank branches fell to 28 percent, while the weekly mobile banking share tripled, to 27 percent.

Vanessa Montes de Oca, 20, lives in Covina, Calif., and she combines being a college student with part-time work at a nearby Sam’s Club. She has an account at Chase Bank, but uses it only to receive her direct-deposit paychecks and to make debit payments. She has no credit cards, viewing them a path to overspending and financial peril.

So Ms. Montes de Oca chose a new credit card alternative, Affirm, to make purchases at an online clothing retailer, UNIF. In the last year, she has made five purchases, ranging up to \$460. She pays Affirm in installments over three to 12 months.

The information she gave Affirm, typing into her smartphone, was her name, address, cellphone number and the last four digits of her Social Security number. Her credit and purchase approval came back in a few seconds.

She used the Affirm smartphone app without qualms. It seemed, she said, a “solid service” — smooth and fast, with the payment amounts and terms clearly stated. That screen in her hand, she added, is where she pays bills, communicates and seeks answers. “Most of the business of my life is on my phone,” said Ms. Montes de Oca, who is also a Venmo user.

The migration to mobile computing may well work to the advantage of the digital-only entrants as people of all ages become more comfortable using a smartphone as the remote control for their finances.

Wealth management services, for example, skew toward an older demographic. At SigFig, a San Francisco start-up that offers an online

investment advisory service, the average user is 47 years old. Still, the share of SigFig users tapping in from mobile devices has increased steadily, to 50 percent.

“People have such a daily relationship with their smartphones now, almost no matter what their age,” said Mike Sha, chief executive of SigFig.

Venmo is riding a surge of popularity, mostly among millennials. The volume of payments through Venmo, a unit of PayPal, more than tripled in the most recently reported quarter, to \$2.1 billion.

Venmo, according to William Ready, senior vice president for products and engineering at PayPal, is beginning to cross generations, as younger adults persuade their parents to use the smartphone app for sending money and splitting payments.

Yet the cross-generational embrace seems to be going slowly. Mr. Craine, the tech support worker, urged his parents, who are in their mid-50s, to use Venmo. But they are not yet converts.

“I tried,” Mr. Craine recalled, “but they are reluctant to deal with money that way on a smartphone.”

Madeleine Fleming, 25, an online product manager who lives in Brooklyn, ran into the same obstacle when she tried to persuade her mother, who is in her late 50s. “She’s a lot less tied to her phone than I am,” Ms. Fleming said.

Ms. Fleming frequently sends small, monetary gifts to friends and relatives with get-well or cheer-up messages. For example, she says, a cousin who is a teacher in New Orleans had a tough week recently. Ms. Fleming sent her \$10 via Venmo, with a note of encouragement that urged her to buy herself a drink.

“It’s a small thinking-of-you gesture,” Ms. Fleming said. “I think it’s the next level of thoughtfulness.”

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