# Loftus Peak's Alex Pollak says there's another reason to sell the banks

Loftus Peak chief Alex Pollak says banks in Britain will have to open their platforms to non-bank service providers from next year and, eventually, it will happen here. **Chris Pearce**

by **Philip Baker**

While everyone knows that investors have been quick to sell shares in the major banks because of the new $6.2 billion tax announced in last month's budget, here's another reason to be wary that's not so well known.

There's a game-changer going on in Britain right now and, although it hasn't grabbed the headlines here, the local banks are very worried about it.

It will allow companies such as Facebook, Amazon, Apple and Google to eat into money the banks earn from credit cards and other payments, because banks in Britain have been told that it's the customers, not them, that own all the information about their transactions.

It means any customer that wants to use that data to get a better deal will be able to do so.

According to Alex Pollak, who runs Loftus Peak, a global fund manager in listed disruptive businesses, banks in Britain will have to open their platforms to non-bank service providers from next year and eventually, it will happen here.

"It will allow outside parties – merchants like Amazon, or payment technologies like ApplePay, to access the banks' customer account details to make payments, chopping


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into the revenue streams of existing credit card companies and bank-to-bank payments," he says.

"It will not require customers to change banks to get lower prices. And neither will the new players need to be banks. It is most likely that the prospective payment providers will be names unfamiliar in banking but well known outside it – certainly Google and Facebook, and a group of others besides, that will jump at the chance to provide payment services using the banks' existing payment 'rails'," he adds.

Britain's Competition and Markets Authority made its final order on "open banking" earlier this year and the new regime is tipped to be like a revolution.

## Warning signs

Although it might take time to filter through to bank shares when it does happen.

As Pollak points out, "bank investors, having seen disruption eviscerate industries like TV, newspapers and retail in the US, now know for certain that long before the destruction takes place it gets priced in to companies".

A good example is Westfield shares, which have fallen 50 per cent  during the past decade as the "smart money" exits the retail property space worried that bolt-hold tenants like Harvey Norman, and maybe even Coles and Woolworths, won't be able to survive the Amazon onslaught.

When it comes to the global banks, Accenture, a technology consulting company, has said competition from digital players could erode as much as a third of traditional retail bank revenues worldwide by 2020.

Could it be crunch time for local investors in bank stocks, which are such a big part of the major S&P ASX 200 index and most portfolios, asks Pollak?

He reckons the banks got a "massive leg-up" during the financial crisis when the government guaranteed their liabilities but also, by taking out some of the smaller players, like Bankwest, St George and RAMS, it meant that it was harder for the fintech sector to attack them.

Those purchases meant they got their act on technology up and running, and by offering services on smartphones their costs fell and their share prices went up.

But it's the way in which banks use payments systems to maximise their revenue that is now under attack.

"Bank transfers take a day to be effected, or cheques take five days to clear, or online banking transfers can take a weekend. The proposition is absurd, given that the money can move the instant the electronic instruction is issued. Creating friction through payments delays is just a way to harvest return," says Pollak.

Britain's new rule, which has also been put forward here by a parliamentary committee, will help any fintech start-ups and non-banks looking to get into financial services.

"The best way to think about this is by looking at what happened to Telstra or the electricity companies. Telstra once owned the telephone network but over time was forced to allow other operators the right to provide services on its infrastructure as long as a fair wholesale 'interconnect' price was paid. It's the reason that we have iinet, Optus and TPG in communications, or, in the energy market, AGL now selling electricity," says Pollak.