Bankers: Keep Up the Innovation, Fight the Utility Model

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By Eric Grover

"Face It, Bankers: You're Not Apple" by Andy Sobel [BankThink, Oct. 11, p. 21] contends banking shouldn't focus on innovation and instead should act like the utility sector. It conjures a Prius-driving straw man who only wants his bank to deliver cash from the ATM – "a human right," as utilities deliver water from the faucet.

First of all, driving a Prius is a political and fashion statement, one the average American doesn't make. An "Everyman" would more likely to be driving a Ford F-series pickup – the best-selling vehicle in the U.S, not a Prius which is one of the 10 worst-selling cars.

But to the point: Everyman expects more from his financial institution. He uses automatic direct deposit, several credit cards, a debit card, possibly an HSA card, a checkbook, electronic banking, an interactive voice response system, electronic bill presentment and payment, and has mortgage, car and boat loans.

Several generations back consumers operated primarily in cash, had savings and checking accounts and went to local retail bank branches to conduct business.

How the banking world has changed.

Open branded retail payment-card networks such as MasterCard and Visa were the greatest retail banking innovation in the last century. General-purpose payment-card networks were invented in the fifties. In 1968 banker, visionary and Visa's founding CEO Dee Hock persuaded B of A to give up control of Visa and open up the network. Consumers and merchants take for granted the convenience, security, record-keeping and instant access to credit and cash worldwide. Luckily Hock didn't think he was a utility man.

Chemical Bank installed the first US ATM in 1969. Use per ATM peaked in 1992 and total transactions in 2001.

Bill Fair and Earl Isaac founded credit-scoring pioneer FICO in 1956. Citibank implemented a proprietary credit-bureau score in 1981. The eponymous FICO score debuted in 1987 enabling consumers to capitalize on their creditworthiness obtaining credit in minutes, whereas several generations ago underwriting was slow, highly subjective and face-to-face.

The Bank of Delaware piloted a debit card in 1966. Today 80% of Americans have one.

Payment processor First Data and Blockbuster launched electronic prepaid cards in the mid-nineties, enhanced MasterCard and Visa branded reloadable versions of which now provide payments for millions of the un- and underbanked.

Chase Manhattan, Chemical, Citibank and Manufacturers Hanover pioneered “home banking” systems in the early eighties. Today consumers take the ability to transact anywhere, anytime for granted.

Former fitness club manager and entrepreneur Pete Kight’s Checkfree made electronic bill presentment and payment a national reality, enabling consumers to electronically manage and pay bills through banks.

Banks started using interactive voice response systems in the seventies. They're now ubiquitous, providing consumers with the ability to transact and access accounts 24-by-7.

Though not a bank, PayPal was a huge financial-services-industry innovation.

When was the last time water utilities created a Visa or PayPal?

The piece dismisses mobile banking. Consumers and merchants are creatures of habit in banking and payments. It took decades for most to "want," use and now take for granted the enormous convenience and value of payment cards, ATMs, home banking and electronic bill presentment and payment. Similarly, consumers didn’t know they wanted Xerox, PCs, email, mobile phones or i-phones. In a decade over-hyped mobile payments and banking are likely to be a part of consumers' daily lives, if the industry isn't straight-jacketed as a public utility.

That said, docile banks are on a path to becoming utilities

The Dodd-Frank Act substitutes suffocating regulation for market judgment. A greater state role in banking however means less choice and value for consumers.

The criticism that a product at one bank can bear "no resemblance to that of the bank across the street" suggests support for uniform product structure and pricing — much as CFPB partisans want only plain vanilla products.

The political environment for banks is ugly.

Intimating the mortgage crisis was banks' fault and the avalanche of mortgage suits have merit doesn't bear scrutiny. It was caused by the Fed's easy credit and government policy systematically weakening and politicizing mortgage credit standards.

President Obama and Senator Durbin think banks are untrustworthy, rapacious and should be treated as utilities.

Acting CFPB director silver-tongued Raj Date enthused when the CFPB starts regulating that that will "jump start the economy." Surreal. The question is how much harm the CFPB will do to the financial services industry, not whether it will fire the economy's animal spirits. Washington is the impediment to jump-starting the economy and to financial-services innovation.

Unfortunately bankers are cowed by and increasingly see Washington rather than their customers and shareholders as their primary masters.

Bankers need to stiffen their spines, to make an affirmative case in the political arena for the value they deliver and freedom to run their businesses, not roll over, else they will indeed find themselves consigned to being straight-jacketed politicized utilities, and consumers will be the big losers.

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