

In an Amazon partnership, JPMorgan or other banks could gain big customer pool

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By Kevin Dobbs

U.S. banks reportedly in talks with Amazon.com Inc. about partnering on a checking account-like product could gain greater access to the highly coveted millennial demographic, analysts said.

The Wall Street Journal reported March 5 that Amazon already has fielded proposals from JPMorgan Chase & Co., Capital One Financial Corp. and other large unnamed banks to offer the retail and technology behemoth's customers a "hybrid-type checking account." The report said details on how such accounts would work were not yet available.

Analysts noted that while many banks could view Amazon as a major competitive threat, a bank that partners with the fast-growing company could gain access to millions of new customers, amassing low-cost deposits and ties to potential borrowers.

Morningstar analyst Colin Plunkett noted in an interview that Amazon has an online customer base that is larger than that of any bank. A large portion of those consumers consists of tech-savvy millennials — people who were born in the 1980s and 1990s. Older millennials are now in their 30s, a stage in life when many Americans begin earning substantially more and start making major purchases, such as new homes. Banks are eager to win more of these younger customers via online strategies, Plunkett said.

"The competition will only increase for younger people now venturing into their years of real purchasing power," Plunkett said.

He also said a bank partnering with Amazon could amass relatively low-cost deposits at a time when interest rates are rising and putting pressure on funding expenses broadly. Banks typically pay checking account customers relatively little in interest, and yet because of the convenience and the high frequency of use that usually accompanies such accounts, customers tend to stick long term with banks once they form a checking relationship with them. That makes checking accounts highly valuable.

The *Journal* reported that Amazon is not looking to become a bank — a move that would surely be greeted with intense pushback from banks and their advocates in Washington — and prefers to partner with a bank to offer basic account services. For Amazon, Plunkett said, it is a way to deepen ties with its customers and learn more about their financial habits. The more the company knows, the better it can market products to customers.

But it may also be a way for Amazon to negotiate lower interchange fees from a bank — the expense retailers pay when customers use bank debit cards for purchases.

Plunkett said the likes of JPMorgan or Capital One probably would consider giving up some fee income if they determined they could pick up a big chunk of deposits and access to more lending opportunities. Big banks may also look to partner with Amazon on credit card offerings.

Both Capital One and JPMorgan declined to comment.

But at an annual investor day last week, JPMorgan executives made clear that deposit growth, particularly via digital means, is a top priority.

"We continue to grow our retail deposit franchise more than twice" the pace of the overall banking industry, CFO Marianne Lake said. "And while we have seen the early signs of an industrywide slowdown" because of rising rates, "we do expect our deposit growth to remain solid and above the industry."

Plunkett said Amazon may be looking at JPMorgan in part because of its sheer size — it is the largest U.S. bank by assets — and perhaps in part because it already has formed ties with the New York banking giant. The companies, along with Berkshire Hathaway Inc., recently joined forces on a healthcare venture aimed at reducing medical costs for their employees.

Amazon may ultimately decide to go with Capital One or another bank to avoid "getting too entrenched with JPMorgan," Plunkett said, adding that Amazon likely will want to make sure that any banking services provided directly to its customers are supplied first to expand its own ties to customers. If it works with multiple banks on multiple fronts, it could avoid the possibility of ceding too much control to any one bank partner.

Rick Weiss, chief banking strategist at Ambassador Financial Group, agreed with Plunkett that there is substantial potential for a bank partnering with Amazon. But he also noted that Amazon is bound to face fierce opposition from the banking industry at large when more details emerge.

"If they go into banking in any way, Amazon will be a really tough competitor," Weiss said in an interview. "And the typical bank, they will see the threat. Banks right now need more customers, not more competitors."

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