Goldman Sachs' partnership with Apple could move it a step closer to being 'a bank branch in your pocket'

Dakin Campbell 24h

Apple CEO Tim Cook is teaming up with Goldman Sachs. AP
Apple and Goldman Sachs are preparing to launch a co-branded credit card later this year, The Wall Street Journal reported last week.

The card will be tied to new iPhone features, the newspaper said, leading experts to surmise that this is the computer giant's most aggressive move yet into financial services.

By designing the credit card with Goldman Sachs from the ground up, Apple can ensure that the card works as seamlessly as possible within its digital wallet, the experts said.

Business Insider spoke with five experts in credit cards, mobile banking, and payments to find out what it would take to make the partnership succeed.

Goldman Sachs can't redefine the credit card, but it can go along for the ride as Apple reimagines the digital wallet.

That's the consensus of five experts across the spectrum of credit cards, mobile banking, and payments interviewed by Business Insider after The Wall Street Journal reported last week that the companies would this year launch a co-branded credit card designed to sync with an iPhone app. The experts gave informed speculation and said they didn't have any inside knowledge about the product.

"There are only two things you can do with a card: spend your own money, and spend the bank's money," said David Robertson, who publishes the industry newsletter The Nilson Report. "So there are a finite number of bells and whistles on any payment-card product."
There will be no reinventing the wheel."

Not in terms of the card agreement, at least. According to the report, the Goldman-Apple card will offer rewards that many people have come to expect — about 2% cash back on most transactions — with the potential for more on Apple products. It added that the companies had expressed no interest in offering more or entering into the hypercompetitive rewards war fueled by Chase's Sapphire Rewards card.

**Breaking ground**

If the Goldman partnership is successful and drives millions more to Apple's digital wallet, it could be the beginning of something much more interesting: the forging of some of the closest ties yet between Wall Street and Silicon Valley.

Tech giants like Apple, Amazon, and Google have been eyeing the financial-services industry, looking for ways to offer banking products without subjecting themselves to onerous regulations.

"Every line-item business of a traditional financial institution will end up intermediated by a mobile phone," said Brett Winton, the head of research at ARK Investment Management, a $7 billion asset manager that makes bets on emergent technologies. "The idea of a
bank branch in your pocket is an incredibly valuable spot."

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That would put Apple on similar footing as PayPal's Venmo app and Square's Cash app, he said.

The key is minimizing friction, from signing up for an account to using the wallet to managing balances and repayment, industry experts said. Apple already allows users to place their preferred cards into the Apple Wallet via Apple Pay, but that can be cumbersome at times. No credit-card company yet allows instant approval. And most credit-card issuers aren't offering credit on demand or flexible payments.

Apple "needs to own the entire user experience," Winton said. "As the friction to transact gets reduced and reduced, you end up with the wallet as the front end for all of the goods you buy."

Reducing friction

There are three critical areas where the collaboration could make it easier for people to apply for and use the credit card.

For one, Apple and Goldman should be able to offer instant issuance. The iPhone's fingerprint or face scanner and two-factor authentication, coupled with the identities of hundreds of millions of users, is a massive advantage, according to Richard Crone of Crone Consulting. That should allow Goldman to more quickly and accurately approve new offers with less risk of fraud, he said.

"No one has instant issuance inside a mobile banking app, let alone
No one has instant issuance inside a mobile banking app, let alone a mobile wallet," Crone said.

That process could be aided by machine-learning and artificial-intelligence techniques, with the accumulated data becoming an asset that improves "like a bodybuilder that gets stronger and stronger with every exercise," Crone said.

A second opportunity would be in offering different types of credit — say, loans with customized repayment terms. Fintechs like Affirm offer nearly instant approvals for point-of-sale financing, and American Express offers an option to move revolving balances onto a fixed payment plan. Goldman offers installment loans with flexible repayment through its digital lending arm, Marcus.

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"What would appear to everyone to be a saturated and declining market — private-label credit cards — may really be camouflage for offering customized credit," Crone said.

The card could also allow people to choose a debit or credit option, maybe even with the swipe of a button on the iPhone's screen, Robertson said. Mastercard, the card's payment network, would have to enable that type of functionality, said Patricia Hewitt, an adviser to payments companies.

The wallet might also offer some type of financial tracking and even encouragement of good financial habits, Winton said. Apple is considering features for the Apple Wallet that would nudge users into managing their account or paying down balances, The Journal said.
"Apple's interest is in further locking its customer user base into its ecosystem," Winton said.

**Reaping benefits**

Having Apple encourage uptake of the card should allow Goldman to significantly lower the cost of acquiring customers, which it now does through direct mail. Each new iPhone could come preloaded with a credit-card offer or other features that encourage users to apply.

If the companies can make this product work, it would be one of the biggest steps yet in Apple's reimagining of the digital wallet. Eventually, people may go there first to do things like call an Uber or pay at Starbucks, Winton said, adding that WeChat, the Chinese messaging and e-commerce app, uses about half of its screen real estate for e-commerce.

In the beginning, Apple and Goldman may need to incentivize people to use the card within the wallet. One way to do that would be to offer additional rewards for using the card in Apple's digital environment or managing your account, Robertson said.

"The issue is consumer inertia," he said. "They have to give you a reason to switch."

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