ECONOMIC RESEARCH

Atlanta Fed Economist Explores the Future of Finance

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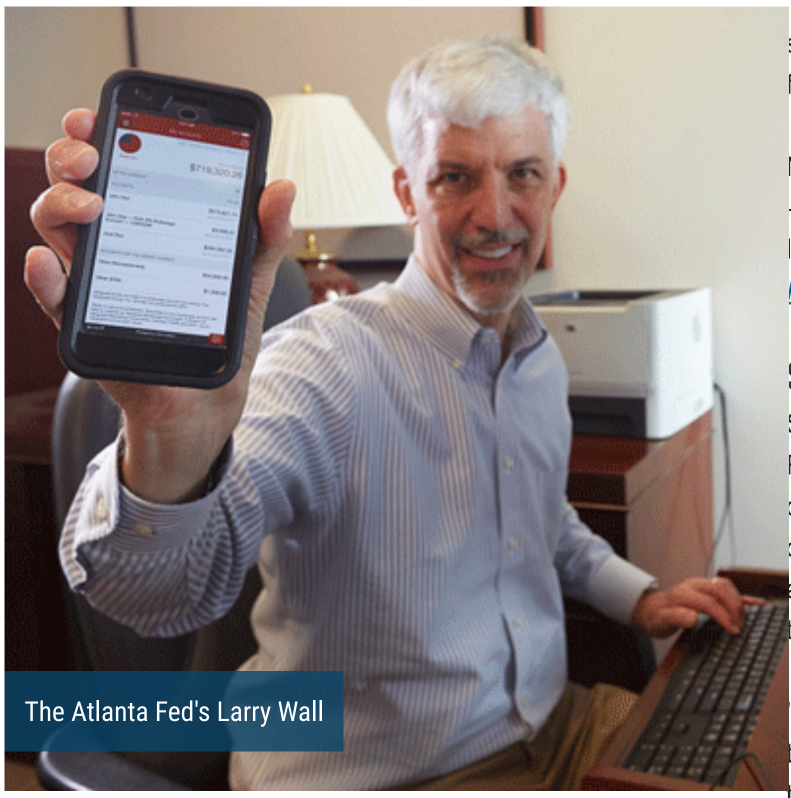
A successful supermarket might need to be an actual supermarket.

The original idea behind the "financial supermarket" concept, much discussed in the 1980s and 1990s, was that customers wanted to buy all their services in one location. But unlike traditional supermarkets, the early one-stop shops for banking and investment services offered mainly in-house services, not an array of products and brands.



The Atlanta Fed's Larry Wall

That limitation was perhaps the chief culprit in their downfall, says Larry Wall, executive director of the Atlanta Fed's Center for Financial Innovation and Stability, or CenFIS.

Nevertheless, the basic idea behind the financial supermarket—offering customers numerous financial services in one online location—lives on, as Wall details in a recent article in CenFIS's *Notes from the Vault* publication.

Stability at hand, CenFIS turns to innovation

Since the darkest days of the financial crisis and Great Recession, the nation's vast machinery for investing and distributing capital has largely been repaired. Thus, after years of necessarily focusing on stability, Wall is steering the research and policy work of CenFIS toward financial innovation—the "I" in the center's acronym.

"There's so much going on here, and the potential for transforming the financial system is so large, that I decided I'd try to get my arms around as much of it as I could," says Wall, who holds a doctorate in business administration with a focus in finance. "And this is certainly one of those areas where the potential for large change is there, especially in the retail area."

There's plenty of innovation to study, and virtually all of it involves technology. In Notes from the Vault, Wall has explored topics including the drivers of financial innovation, smart contracts, regulation of financial technology (fintech) companies, the implications of machine learning for prudential supervision, and some ways [fintech can contribute to financial inclusion](#).

The financial supermarket dies, but may live anew

The concept of the financial supermarket is one Wall has examined. A couple of well-known U.S. corporations made notable early attempts to assemble financial bazaars. Sears was among the first. It acquired the home seller Coldwell Banker, the investment bank Dean Witter, and other pieces to build a financial supermarket in the 1980s. Another attempt at building a supermarket came from Citicorp's 1998 merger with the insurance giant Travelers. These supermarkets sought to offer consumers a wide range of financial services from a single company under a single roof.

Ultimately, however, both Sears and Citicorp scaled back their ambitions. Their would-be supermarkets did not thrive mainly because, as Wall points out above, the options available to customers were not nearly as varied as those found in a modern grocery store. Most consumers did not feel compelled to change the way they bought financial services. Other early attempts at operating financial supermarkets largely met with only modest success for the same reason.

Emerging presently is what Wall calls the "financial supermarket 2.0," a version of the business model that would be assembled on a common computer platform from virtual pieces, rather than under a physical roof. Some combination of incumbent financial firms and new fintech firms could provide the pieces.

Newcomers navigate the obstacles

When fintechs burst on the scene after the 2008 financial crisis, some observers and fintech boosters predicted the newcomers would usurp traditional banks, which has not happened for numerous reasons, Wall notes. Regulatory hurdles and consumer trust concerns have been among fintech's biggest obstacles.

Another major difficulty has been convincing banks to give fintechs access to their customers' data. Banks have little incentive to share this precious data, Wall points out. And traditional banks offer consumers a level of comfort that likely does not extend to upstart online firms.

As the obstacles facing fintech firms became more apparent, these firms have become more interested in working with, rather than replacing, banks. In some cases, this collaboration takes the form of a partnership to supply innovative services. In other cases, a struggling fintech may offer a service that's attractive to a bank, so rather than try to duplicate the service, the bank acquires the fintech company. Whatever the scenario, more banks are, "with varying degrees of effort and thoughtfulness," expanding online product and service offerings via arrangements with fintech firms, Wall notes.

The value is in the data

Consumers generally need a compelling reason to shop in one spot, so a supermarket must offer additional value. In the 1980s and 1990s, a large part of a financial supermarket's theoretical draw was empowering the customer to purchase a variety of services in one place. With the next generation of financial supermarkets selling services online, the source of value will be a deeper understanding of individual consumers and their needs.

In other words, Wall says, "It's primarily about the data."

Increasingly for firms, the payoff from one-stop shopping comes from more and better information about consumers that the firms can use to cater more effectively to them. To accomplish this, data sharing—with customer consent—would become important in this business model. For example, if a customer opens a college savings account, the operators of the digital financial supermarket are aware of a precollege child in the household. The supermarket operators can then share that information with colleges that would bid to place a targeted ad on the supermarket website.

"This suggests," Wall writes, "that firms with a large presence in online shopping, search, and/or social media might benefit from becoming a financial supermarket."

These online powerhouses own enormous consumer databases and the analytical muscle to extract insights from these data. These firms could combine their existing data with financial information to pinpoint each individual's demand for different products and services, as in the case of the family with the future college student, Wall explains.

None of this is likely to be easy. Financial regulations are generally more stringent than those imposed on other industries, Wall notes. Technology firms looking to assemble financial supermarkets or create broader market strategies that include financial services would need to comply with consumer protection and possibly prudential regulations similar to those banks operate under, Wall points out.

Despite the intricacies and challenges involved, the digital neighborhood might soon see a proliferation of next-generation financial supermarkets.

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