

PayPal Attempts to Enter the Traditional Banking World

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PayPal, a leading global payment company, has recently [announced](#) that it is piloting some banking service models similar to those that traditional banks typically provide to customers. In addition to its primary money transfer service, the new feature services will be made available through the PayPal digital wallet. Under this scheme, PayPal is offering the option to make a mobile check deposit or have direct-deposit paychecks, an ATM-compatible debit card for cash withdrawals, and pass-through Federal Deposit Insurance Corp. (FDIC) insurance for the account balances.

According to Bill Ready, PayPal's Chief Operating Officer, PayPal just wants to offer banking options to customers who may not be able to access fundamental financial services, but it has no interest in becoming a traditional bank at this moment. Ready [emphasized](#) that “if you already have a bank account connected to your PayPal account, this isn’t an account for you.” This is because PayPal claims that it aims to provide the service to promote financial access to a person who may not have an existing traditional bank account, also known as people who are “unbanked”. Ready [pointed out](#) that there are more than 30 million underserved people in the U.S. who basically spend 9.5% of their income on service charges or fees for alternative financial services. They are forced to turn to prepaid cards, check cashiers, or payday lenders to afford their basic needs of financial services.

In terms of serving those who are “unbanked,” on one hand, PayPal will not charge a monthly fee nor require the customers to maintain a minimum balance on their account. However, on the other hand, it will impose fees on cash withdrawals from out-of-network ATMs as well as take 1% of the deposited checks done through the smartphone camera system. This may not be so attractive to those with existing bank accounts but it would be a helpful option for some customers who are being ignored by big banks.

Interestingly, PayPal is hoping to pilot these services even though it has never obtained a U.S. banking license. [The industrial loan company charter](#) states that nonfinancial companies are allowed to engage in the banking business without being subject to banking regulations, including the Federal Reserve’s oversight authority in some states. To this end, PayPal has developed financial technological tools and has affiliated itself with small financial institutions who work behind the scenes for particular services from different locations. Namely, they use the debit card connecting to customers’ PayPal accounts issued by a Delaware bank, retain instant check depositing and clearing from another bank in Georgia, and engage with a bank in Utah to make loans to consumers. Such partnership agreements not only help PayPal bypass several



financial regulations and FDIC deposit insurance but also allows PayPal to conform with the rules of card issuer companies, like Visa and MasterCard, which require their debit/credit cards to be issued by banks.

PayPal is not the only non-traditional bank firm trying to explore the banking field. There are [other players](#), including startups such as Square Inc., Stripe Inc., Social Finance Inc. and TransferWise, or even one of the world's biggest online marketplaces like Amazon, that are eager to seek the lucrative business opportunity in bank-like services too.

In the near future, we could see a lot of next-generation momentum in disruptive technologies and changes in the relationship between banks and customers. Fintech companies will likely go the extra mile to offer user-friendly services in the growing digital economy. In the end however, it would be a real nightmare for traditional banks if they cannot respond to these rapid changes.