

NEOBANKS

A GLOBAL DEEP DIVE



AUGUST 2019

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1. The Banking Landscape.

The Banking Landscape

An Overview

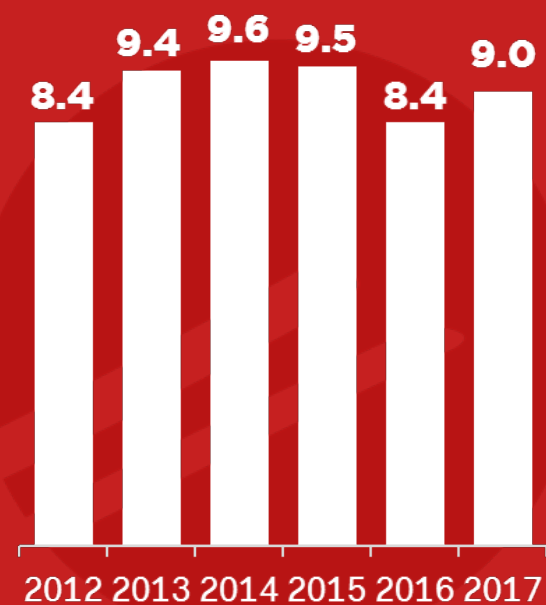
It's been slightly more than 10 years since the financial crisis of 2008. In this time, the global banking industry has been working in coordination with financial regulators to move the financial system from its precarious position to a safer one, resting on less tenuous ground.

In numerical terms, the global banking ROE had fallen from 15.2% in the pre-economic crisis period to 9% in 2017. It has hovered in a narrow range between 8% and 9% since 2012, which is a clear indication of the industry's resiliency.

The industry is at a tipping point, from where there are two different scenarios possible in relation to the future ROE trends.

1. Worst Case: Banks will not act timely on the digital opportunity, and lose their market share to challengers, further diminishing their margins and ROE.
2. New Reality: Banks will increase their tech spending to their bottom lines for their digital transformation initiatives. The gain from digitization will enable them to stabilize their ROEs and achieve growth in the long run.

Returns on Equity (After Tax, %)

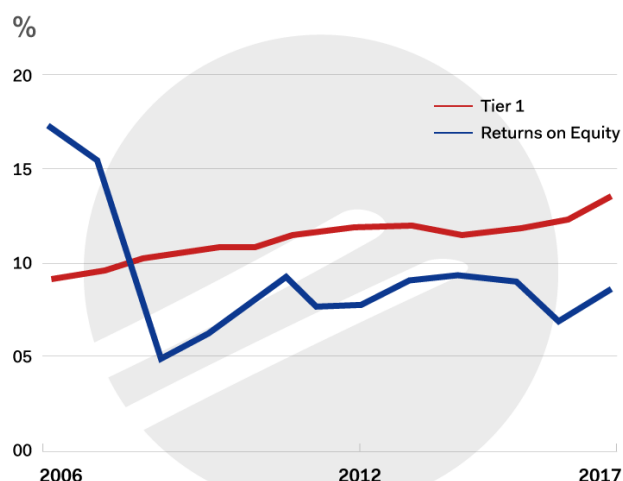


Source: McKinsey Report 2018

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Global Returns on Equity and Tier 1 Capital Ratio¹



Note: 1) Based on a sample of ~1000 largest banks globally in terms of assets.
Source: McKinsey Report 2018.

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However, the global Tier 1 capital ratio, a primary indicator of banking-system safety – **increased from 9.8% in 2007 to 13.2% in 2017.**

Challenges Faced by Banks

1. Legacy Infrastructure Impeding Banks Digital Transformation Journey

Legacy technology systems and processes remain, to this day, a constant for most banks globally, and it would seem that they remain hesitant to embrace change. There's no doubt that such platforms have played a critical role in these banks' daily operations, gradually, they are being viewed as problematic, as they inhibit progress. The result? Banks continue to lag behind in an industry that is in a state of almost constant forward motion. Having said that, it's also true that they have been in use for so long owing to the stability and security they provide - banks are able to rely on them. This fact, combined with the risk-aversion banks have when it comes to making decisions, not to mention their set processes that function as though in slow motion, has contributed significantly to the problem - there are long, almost interminable delays in these financial institutions' digital transformation projects. This, in turn, completes the vicious circle, and banks remain caught up, to put it simply, with simply catching up.

This leads to increased pressure on these institutions to cope up in a world where change is a given; a constant. Failing is becoming increasingly less manageable, as the scale of the requisite transformation continues to grow. Consider this: just last year, in 2008, the UK witnessed numerous outages across the spectrum of leading banks, including robust ones such as Barclays, RBS, and Natwest. And in today's 24/7 connected environment, media attention on such outages does much damage to an institution's reputation, resulting in loss of its customers' hard-earned trust.

Challenges Posed by Legacy Technology

Over the years, legacy systems or Core Banking Solutions (CBS) have undergone cycles of change, to meet a wide range of requirements. This has presented financial institutions with multiple challenges with respect to updating their existing systems. For instance, 'knowledge transfer', 'undocumented logic', 'technical debt' and a 'skills/desire gap' are among the factors that come as obstacles to making CBS more versatile. It's not just a matter of knowing how to do this; CBS come with a great degree of complexity and as a consequence, changing over to newer, better systems isn't a very simple task, which is why banks aren't often keen on getting this done. Today's systems are more agile and in some instances, modular as well. This is in sharp contrast to the monolithic architecture of CBS - changing one part of the larger system could have an adverse effect on other parts. This, in turn, necessitates lengthy impact assessments and testing, which would incur significant expense. The bottom line is, switching over to agile systems is far from easy for financial institutions.

Partnerships – Do they provide the solution?

The challenges that come with legacy technology are very real, but it's also true that this is an ideal time for support to come from the current technology ecosystem. Banks and financial institutions can address and resolve many of the problems they face at present, through measures such as adoption of cloud services and, of course, partnering with FinTechs.

Now, most banks do not possess the requisite in-house know-how to solve for the problems they're facing with their legacy systems. Therefore, engaging in partnerships with FinTech companies and providers of cloud services like AWS will empower them to gain the expertise they need to upgrade and implement new product offerings. Doing so has two distinct advantages - one, that their current requirements can be met, and two, they can plan better for the future, too. How? Unlike banks' internal teams, FinTechs tend to have roadmaps in place, carefully built after considering new regulations and projected customer needs. In the same way, the cloud service providers can bring in the new & innovative underlying services that will further help the incumbents to accelerate their digital transformation journey.

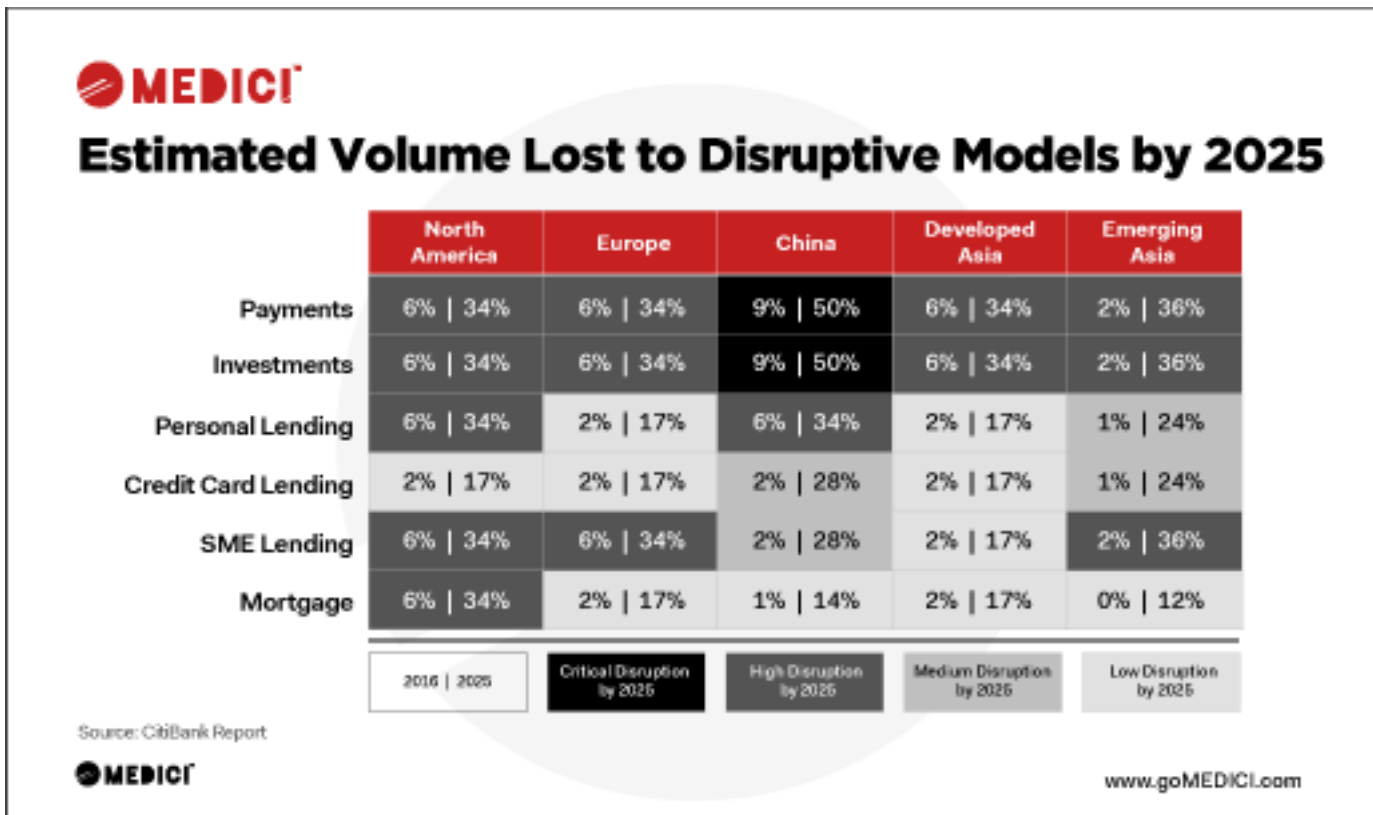
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Challenges Faced by Banks

2. Pressure From FinTech Players

FinTech companies around the world have now reached the potential of substituting almost any service from the banking value chain. The financial services landscape is evolving at a rapid pace. The fierce fight for customer experience has left the incumbents reeling and has pushed them to re-evaluate their strategies. On the other hand, customer trust is also at stake. While in some markets, banks are still able to hold on to the trust of their customer base – especially non-millennials; other major regions like China have seen tech invaders making a huge dent in the market.

With wounds of the economic crisis being still fresh, some of the recent data breaches have left customers wanting for a more robust FinServ ecosystem. The flaws in the existing systems – non-transparent and complex payment systems, costly wire transfers and agent-driven remittances, the credit gap after the economic crisis, legacy banking systems – are all building a strong case for the FinTech to take center stage and lead the innovation to eliminate these flaws.



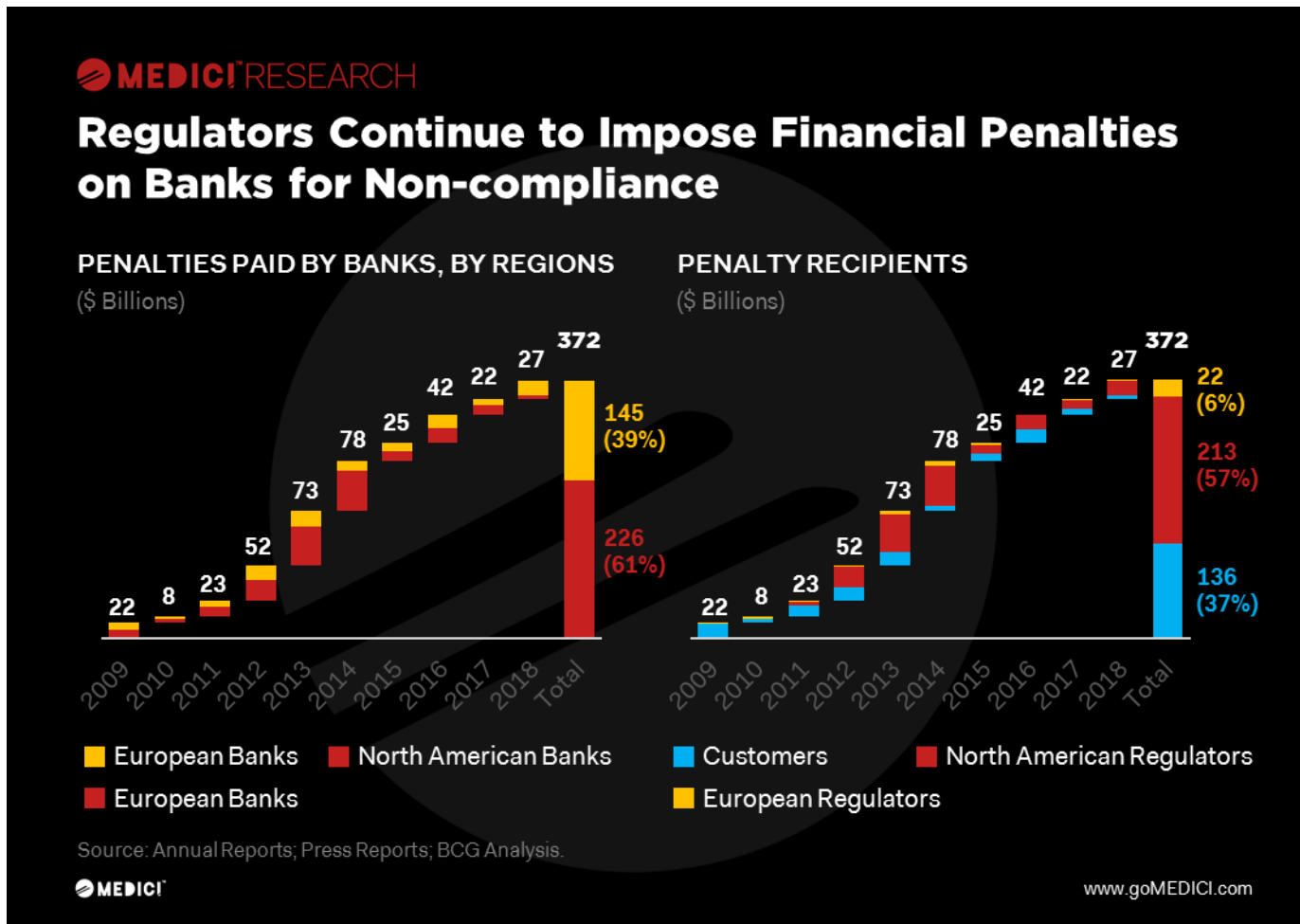
Disruptive business models by neobanks, including FinTech contenders, have the potential to impact investment and payment products significantly. Citi estimates, for example, that anywhere from one-third to half of the total payment volumes could be lost to models by incumbent players.

So, what are these disruptive models like? That depends, of course, on the product in question. For example, for payments, the models would include aspects such as P2P/A2A and digital-only cross-currency exchange, and of course, wallet-enabled digital payments. On the other hand, with reference to investments, some of the dimensions within those models would include robo-advisory, lower pricing, and digital-only brokerage; and if one were to consider, say, mortgages, aspects of the model would include alternative credit scoring, SME lending, and digital-only automated mortgage, to list a few.

It is anticipated that while the disruption would begin with payments, it will gradually come to other products as well. It's important to understand that the newer kind of banks are modeled on the premise of not just meeting existing expectations of customers, but also offering them superior personalization and entirely digital banking experiences. How? By effectively leveraging data, for insights through versatile, agile tech stacks.

Challenges Faced by Banks

3. Proposed Regulations Are Putting Banks Under Pressure



The cost of compliance and misconduct has made a serious dent in banks' profitability as they need to expand their compliance headcounts to tackle the regulatory expectations. Compliance puts an additional and necessary onus on banks to transform their existing systems.

Globally, banks are now shelling out in excess of \$270 billion per year on compliance and regulatory obligations. Large US and European banks are spending as much as \$20 billion a year on technology to help them comply with the newly evolving regulations such as MiFID and PSD2.

Regulators, especially in the US and the UK, are becoming stricter. An estimate indicates that fines levied on banks by US and UK regulators will top \$400 billion by 2020. There is almost no margin for error as regulators are not hesitant to impose huge penalties for non-compliance and misconduct.

While large banks have the capital to bear the cost of compliance (and pay hefty fines for non-compliance), smaller banks find it even more challenging with limited capital. Growing costs and hefty fines can pose serious hurdles to the very sustainability of their businesses.

Regulations like PSD2 are mandating banks to open up their APIs for FinTech and external developers. This will lead to a prospect of banks losing a share of customer relationship to FinTech. This will push them to up their game and embrace the changing technology with customer needs – failing which they might eventually end up serving as a back-end infrastructure enabler for FinTech.

Challenges Faced by Banks

4. Tech Giants Are the New Invaders the Incumbents Are Worried About

Tech Invaders like GAFAM and BAT (Google, Amazon, Facebook, Apple, Microsoft, Baidu, Alibaba, Tencent) – are making huge dents in financial services markets across the globe. We have seen the growing traction of lending services by WeChat and Amazon in their respective regions. With their superior technology, access to huge data pools, and superior customer experience, these players are making serious inroads into the financial services ecosystem, and are changing the way people save, pay, borrow, and invest – thus powering their financial lives.

The Chinese Moghuls – Alibaba, Tencent, and Baidu – already have a significant head start in their FinTech initiatives. These three players have ventured into most of the key FinTech segments, and are beginning to show signs of leading the next wave of FinTech.

Tech giants who are yet to enter the FinTech space are beginning to warm up to the idea. We may see IT players like IBM and Capgemini go on an M&A "shopping spree" for FinTech startups.

Google

- Google Wallet (Payments)
- Android Pay (Payments)
- Google Tez – Bank-to-bank payment in India using UPI (Payments)
- Partnership with LendingClub (Lending)
- Investments in Lemonade, Collective Health, and Oscar Health (InsurTech)
- \$25 M investment in currency cloud (Remittance)
- Partnerships with banks for Digital Lending
- Launchpad Accelerator program to identify, invest, and work with innovative FinTech startups

Microsoft

- Azure's Blockchain-as-a-service
- Acquired mobile data lab
- Jinrong – Microsoft Venture Accelerator's alumni
- Collaborated with Deutsche Bank, to launch FinTech labs in Berlin
- JV with Nucleus Software to launch lending software FinnOne Neo, on Azure
- Microsoft has announced a collaboration with SWIFT
- Strategic investments in:
 - Cringle (Expense sharing)
 - Suade (RegTech)
 - Trusona (ID Verification)
- Microsoft is also working with Interswitch, an impressive payments and FinTech innovator in Africa

facebook.

- Registered a new FinTech firm in Switzerland
- Launched Libra cryptocurrency in seven languages
- Facebook Pay launched in the US; expected to launch in India and Australia (P2P/Group Payments)
- Facebook-owned WhatsApp Pay in India
- Facebook marketplace live in 26+ countries
- Launched social commerce in Thailand
- Launched cash advance for online merchants (partnership with Clearbanc)
- Bought patent for credit assessment
- Messenger-based chatbot banking live with many banks



Alibaba.com

- Alipay/Ant Financial
- Ant's insurance marketplace cooperates with more than 80 national insurance companies
- Ant Credit/Zhao Cai Bao (Lending)
- MyBank (Neobank)
- Zhong An – JV with Tencent & Ping An (InsurTech)
- Yu'e Bao (Wealth Management)
- Sesame Credit (Credit Scoring)
- Acquisition of HelloPay
- 45% stakes in Mynt
- JV with EmTek to launch mobile payments platform in Indonesia
- Strategic partnership with MoneyGram (Remittances)
- Majority stake in Paytm (Payments/Wallet)
- Obtained Hong Kong's banking license



- Apple iCard
- Apple is working with Goldman Sachs and Mastercard to launch a credit card
- Apple Pay (Payments)
- Integration with Western Union (Remittance)
- Message-based payments in 2018 (Payments)
- OCBC-Siri B2B payments

amazon

- Amazon Go (IoT, Payments)
- Amazon Pay (Semi-Closed Wallet)
- Amazon Merchant Lending
- Acquisition of Emvantage payments (Payments)
- Investment in Capital Float (Lending)
- Acquisition of Blink (IoT)
- Amazon.com Store card
- Amazon Prime Visa
- Amazon Cash

Tencent 腾讯

- TenPay/WeChat Pay (Payments & Remittance)
- WeLiDaL (Lending)
- WeBank (Neobank)
- Zhong An – JV with Alibaba and Tencent (InsurTech)
- Licaitong (Wealth Management)
- Tencent Credit (Credit Scoring)
- setting up FinTech lab in Xiongan
- FinTech operations generated £2.5 billion in Q1 2019
- Investment in NiYO
- Obtained Hong Kong's banking license

Baidu 百度

- Baifubao/Baidu Wallet (Payments)
- Baidu Finance (Lending)
- Baixin Bank – JV with CITIC (Neobank)
- Bai An – JV with Allianz (InsurTech)
- Bai Fa (Wealth Management)
- Investment in Zest Finance (Credit Scoring)
- Investment in Circle (P2P payments)
- Got Hong Kong's banking license
- Baidu Inc has obtained a license for third-party fund sales as part of its foray into internet finance.
- Stake in Hong Kong-based Consumer Finance firm Harbin Bank Co. Ltd.

Notes: This list highlights most of the key FinTech initiatives by tech giants. However, this is not an exhaustive list.

GAFAM and BAT (Google, Amazon, Facebook, Apple, Microsoft, Baidu, Alibaba, Tencent) – are making huge dents in FinTech markets across the globe. They have begun to establish themselves the new invaders the banks are getting increasingly worried about.

Challenges Faced by Banks

5. Running a Purely Physical Branch in a Digital Era

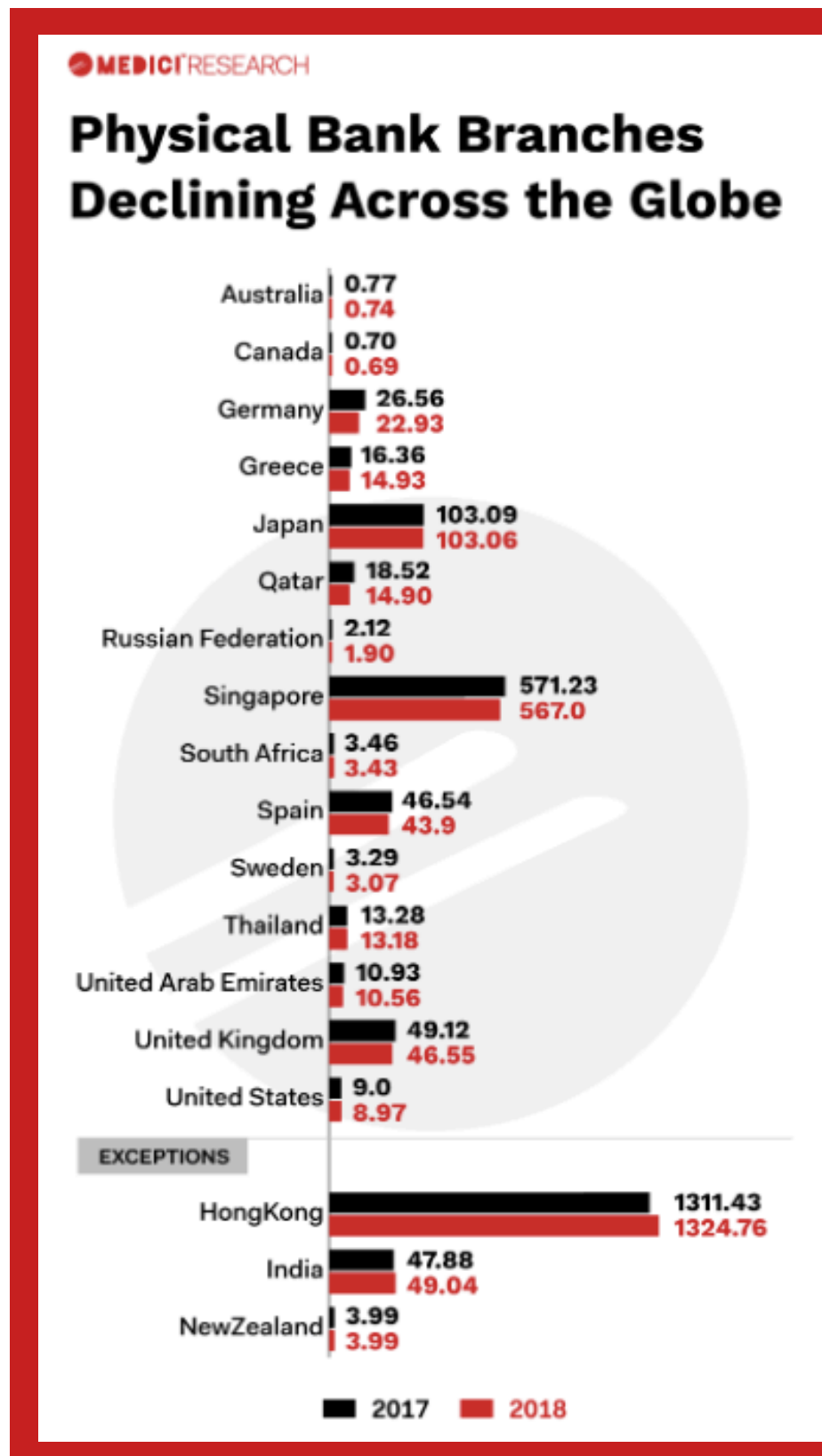
Decline of bank branches in a majority of the countries around the globe, with the exception of India, Hong Kong, and New Zealand.

HIGH COST: The significant expenses associated with running a purely physical branch can be attributed to the lease paid or the high cost of land bought for running the branch. Not to mention, the salary cost of the tellers and the staff, and the cost of maintaining the cash distribution network for running the branch. Furthermore, physical branches are estimated to cost banks \$4 per transaction on average, while PC and mobile-banking cost \$0.09 and \$0.019 per transaction, respectively.

PHYSICAL EXPERIENCE: Most of the purely physical branches lack the digital touch and are often old, under-occupied, and poorly maintained. The newer branches that were opened a few years back are also poorly maintained, and hence, provide a poor customer experience.

TRACKING: In order to provide high-quality customer experience, it is important to track customer engagement in the branch. The complex interactions held in the bank between the staff and customers are difficult to track without recourse to technology, and hence, it is difficult to deliver a constant, distinctive customer experience over time.

OPERATING CHALLENGES: Banks face a major hurdle in managing the capacity of a branch when there are several small branches involved. It becomes a problem for the bank in terms of cost when there is a limited number of customers visiting. In addition, the branches' personnel require constant training to maintain a consistent customer experience, which is an added expense.



Challenges Faced by Banks

6. Customer Engagement

With the digital age, meeting customer's experience and continuously engaging with them has been one of the biggest challenges that incumbents face. The customers have become more demanding in nature and expect their financial services to be just like their lifestyle solutions (Uber, Airbnb) – everything done with only four clicks.

A fallout of the 2008 crisis was that many consumers lost faith in the financial industry. In an endeavor to regain this trust, banks around the world have been working in the vein of tech companies to offer digital platforms to consumers. A necessary move, considering that these days, consumers have far greater access to information, and are more sensitive to pricing as well. Not to mention, they are also far more vocal about their displeasure; not something to be taken lightly in the world of social media call-outs. Accordingly, banks need to avoid slipping up as they move to mobile/online services – this is particularly important as they compete against more non-bank players like FinTechs and tech invaders.

Some of the challenges faced by banks for providing banking services in this digital age are:

- ▶ Different banking needs compared to other generations like eschewed credit cards for cash and debit cards.
- ▶ Interaction with brands differently compared to other generations. E.g., different media from the ones traditionally used by banks (social media or push notifications from lifestyle apps).
- ▶ Preferences for non-banks or FinTechs that provide stand-alone offerings instead of add-on products from their existing bank.
- ▶ Preference for mobile-app or web-based banking.
- ▶ Want to have money management tools on their phone that will provide clarity and insights about their financial expenses.
- ▶ Preference for innovative products like payday loans, POS-based lending, etc., which are not currently being offered by their banks.

Digital Transformation as an Opportunity for Banks

With the changing regulatory and market landscape, there is an increasing pressure on banks to reassess their strategies, increase their tech spending, and bring down their costs at the same time. As the costs increase, revenue growth is also decreasing, thus affecting banks' profit margins. Also, banks are under a growing threat of disintermediation by the new challengers. In such a compelling scenario, banks are resorting to innovation – not just as a good-to-have strategy that looks at the future, but even more as a means to sustain a healthy profit margin. The road to innovation begins with digital transformation.

While there are a number of challenges associated with it such as legacy issues, upgradation costs, and battle with inefficiencies, the benefits of digital significantly outnumber the challenges.

However, there are a very few forward-thinking banks – such as DBS, BNP Paribas, BBVA, YES Bank, RBL, etc. – who are comprehensively reinventing themselves as truly digital innovators and are holding on to their customer relationships by virtue of a comprehensive digital transformation on all the major fronts – business model, perception, people, service model, and operating model.

A number of banks have either not taken a serious step in this direction, or they aren't doing it right. An effective, holistic digital strategy is the key. As per a recent study by Accenture, it was determined that **only half of the global banks are making significant advancements in digital transformation, resulting in lower market valuations, even after** investing billions over the past three years to transform their IT operations.

In order to reap the complete benefits of digital, banks will need to align their innovation strategy with the emergence of technology on all major fronts, i.e., business model, service delivery, operations, resources, and customer perception.

However, with Open Banking knocking on the doors of traditional FinServ, banks must put their best foot forward and embrace the digital wave – barring which, they will have only themselves to blame.

02.

New Opportunities: The Rise of Neobanks.

Characteristics of Neobanks

The challenger banking landscape is an amalgamation of non-licensed over the top banks, digital initiatives of traditional banks, marketplaces, and licensed challenger banks.

Licensed Banks

These are digital-only banks which have obtained a fully operational banking license. This enables them to offer certain products and services on their own, rather than through licensed banks. Through this disintermediation, they expect to be able to reduce their costs and either pass them on to their customers or increase their profit margins. It also enables them to have an improved core banking platform that allows for smoother integration with external service providers they may choose to tie up with. Some of these banks may still continue to offer services in partnerships with banks and other FinTech companies. They may also continue to operate as marketplaces.



Banks' Digital Initiatives

These are separate, stand-alone, mobile-only banks created by traditional banks; they use new-age technology to deliver products and services in a customer-friendly manner. These digital banks use completely different technology platforms compared to their parent banks, thereby fast-tracking the overcoming of hurdles associated with legacy architecture. They are targeted at the tech-savvy, millennial customer segment, as well as to provide best-in-class innovative banking services.



Over The Top

These are digital-only platforms that don't have their own banking licenses. These platforms offer either a stand-alone product or a bouquet of financial products in partnerships with financial institutions/banks and FinTech firms but at a cost quite lower than of traditional banks. Some of them act as marketplaces for financial products. They often take the API route to connect their customers to services provided by various players. These players usually differentiate themselves by offering unique features/VAS to their customers.



New Opportunities: The Rise of Neobanks

Gained Momentum Quickly & Silently

Since the financial crisis of 2008-09, the banking sector, especially in the developed markets, suffered a heavy loss of trust and is undergoing incremental reform ever since. Lower interest rates, a banking culture acting as an impediment to fast innovation, and the demand from customers for a Google/Facebook-like simplicity in banking experience led to the creation of an entrepreneur-led banking products revolution. Fast-forward to 2016 – a new breed of technology-driven and customer-centric financial institutions, aptly named neobanks, are bidding to transform the banking landscape as we know it.

When it comes to neobanks, it's important to note that they are often faster with respect to integrating new processes and/or products into their existing platforms and can help customers connect in an easier manner with third-party products which, ultimately, benefits the end user. It also helps that many neobanks – most of them, in fact – don't tend to have physical branches, only keeping them for certain products and customer segments that require physical transactions. Instead, their services are online and mobile-enabled. What sets them apart is that, in many cases, these banks focus on underserved segments in SME/retail. This helps them acquire customers on a larger scale, thanks to the improved UX they offer.

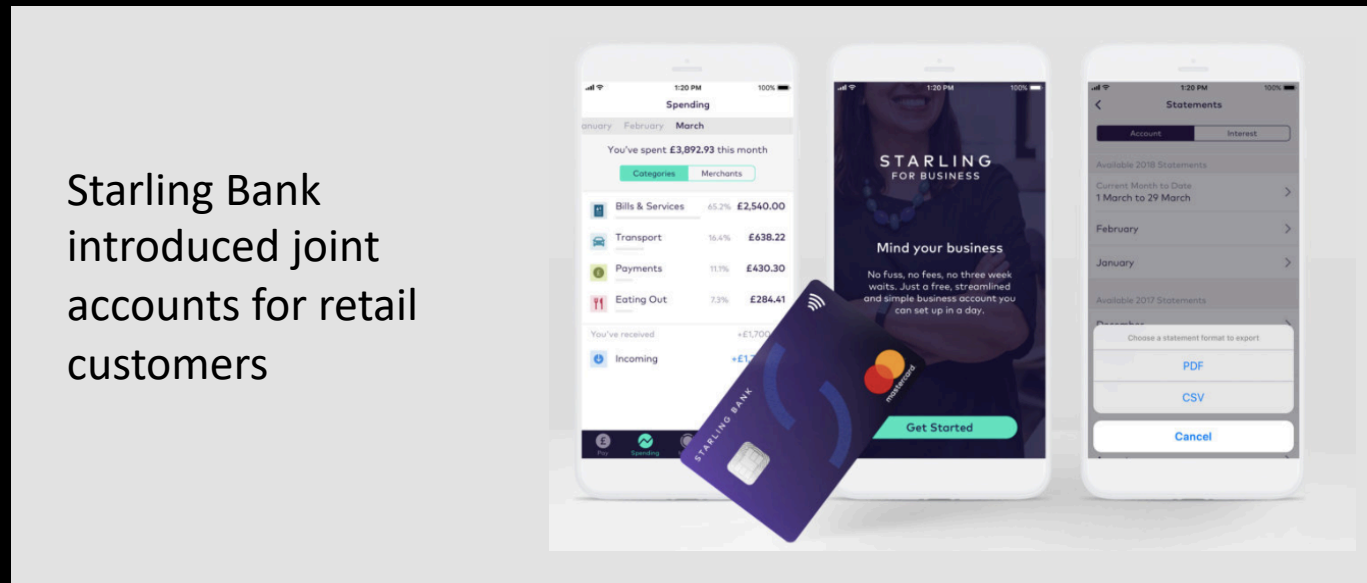
How is the service offering different from traditional banks?

Neobanks offer innovative features and offerings that are different from traditional banks including fast account opening, free debit card, instant payments, cryptocurrencies, lower costs, mobile deposits, P2P payments, mobile budgeting tools, user-friendly interfaces, etc. We have discussed some of the top innovations happening in this space below:

- **Digital Onboarding/Account Opening: Neobanks offer simple and fast online account opening compared to traditional banks. E.g., Joint account opening by Starling Bank.**

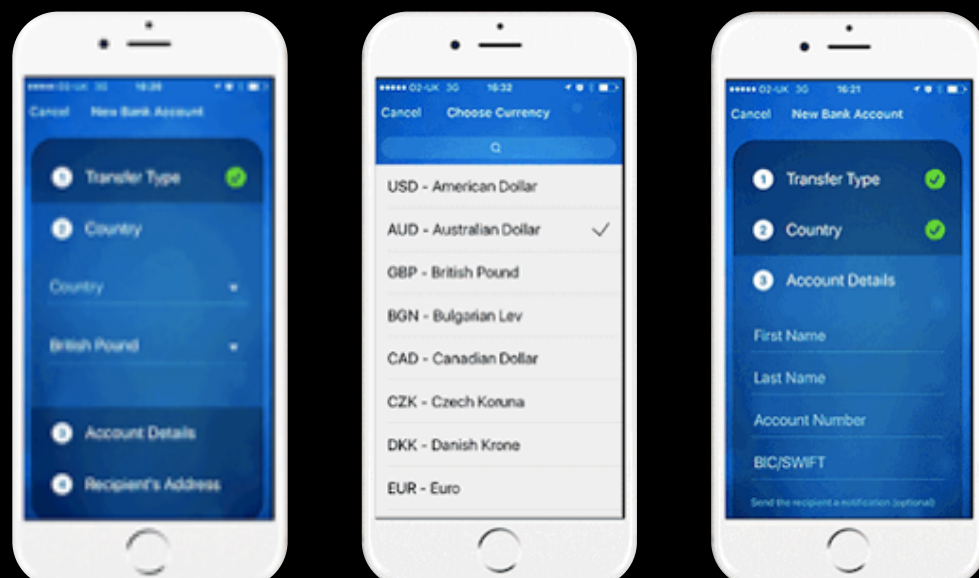
Starling Bank introduced joint accounts for retail customers. Using Google Nearby technology, Starling customers can apply to open a joint account by just sitting next to each other. The technology uses a combination of Bluetooth and Wi-Fi to find the other device so that they can confirm the connection. Customers need to tap the “find your other half” prompt within the app to open the joint account. It is available to any two existing Starling personal account customers. Each account holder can order their own card, and both account holders will receive notifications for all transactions made on the joint account. It also lets account holders set up a common goal. In the event of discord or a relationship breakup, account holders can unilaterally lock it up and shut down the account by contacting Starling directly.

New Opportunities: The Rise of Neobanks



- **International Payments/Remittances:** Neobanks offer the usage of their debit card in foreign countries for no fees and at live exchange rates. E.g., Revolut enables consumers to hold, exchange, and transfer up to 25 currencies via the Revolut app for no fees.

Users can open free EUR and GBP account in three minutes. It allows its users to lock-in exchange rates in real time via the app. Consumers can also set up a free multi-currency recurring payment system on-the-go for rent, bills, and more, in 25 currencies. A user can transfer money to bank accounts in over 120 countries for free. Also, the company provides the Revolut card, which supports card payments and ATM withdrawals in over 140 currencies. It lets users transfer money to other accounts via SMS, email, WhatsApp, and social media. Users can also buy, hold, and exchange cryptocurrency (Bitcoin, Ether, etc.) with 25 fiat currencies. While transferring money, traditional banks, and other forex providers either mark up the exchange rate or charge high fees for transfers. They earn through the difference between the interbank exchange rate and the rates they offer. However, Revolut uses the interbank exchange rate (no markups) and does not charge any fees for a standard transfer. If a user needs to send money faster, a small amount is charged.

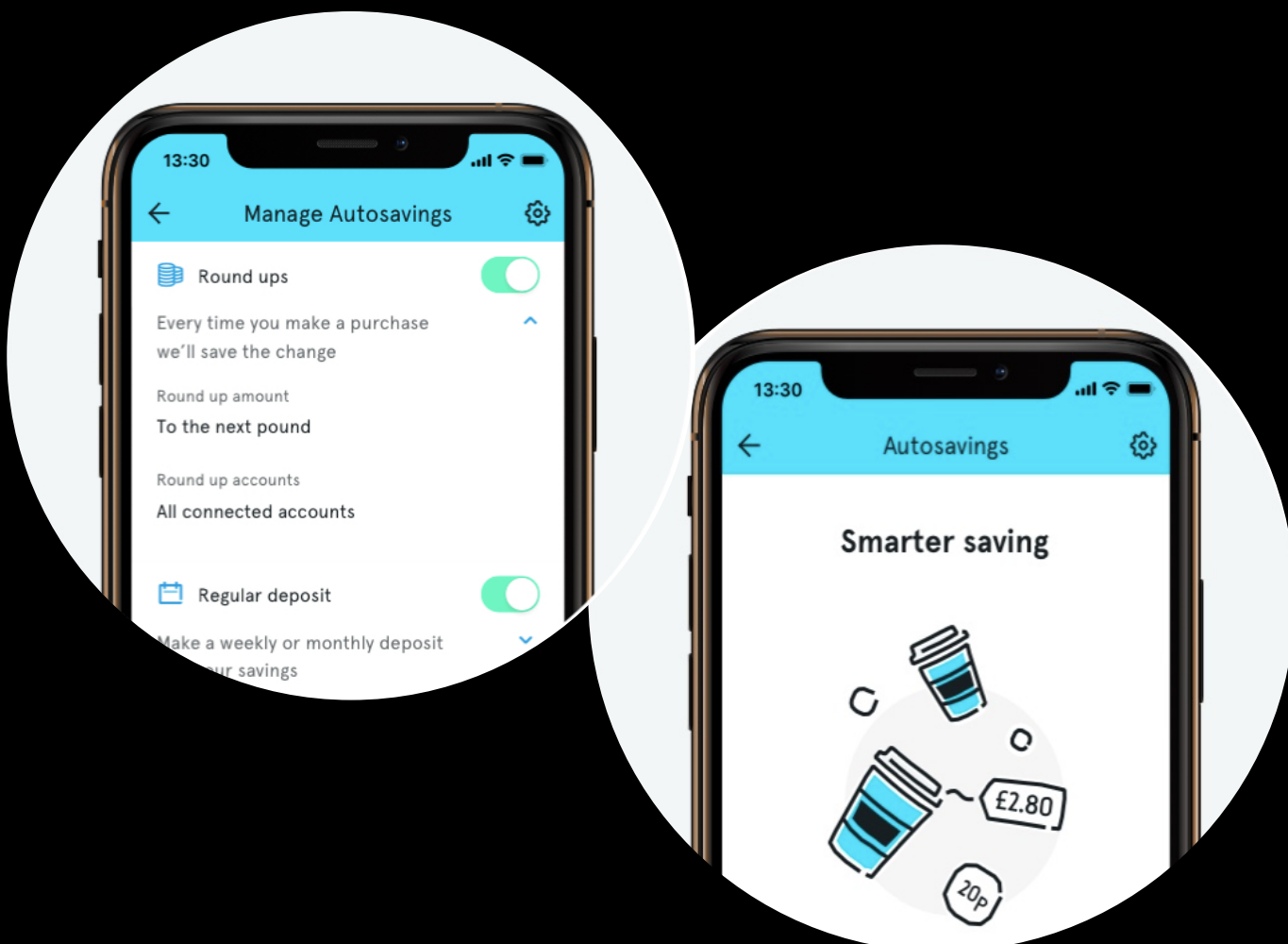


New Opportunities: The Rise of Neobanks

- **Money Tracking/Account Aggregation: Neobanks can simplify money tracking and account aggregation. E.g., Tandem is a money management app that helps users to spend, save, and manage their money.**

Tandem is a money management app that helps users to spend, save, and manage their money. It uses AI which flags rising bills, duplicate payments, and other user expenditure like refunds. Although it has its own banking license (acquired through the acquisition of Harrods Bank), it allows users to connect all of their bank accounts (including Tandem accounts) to a single app that shows how much the user can spend each month. It also helps in finding better deals (such as switching energy suppliers & more).

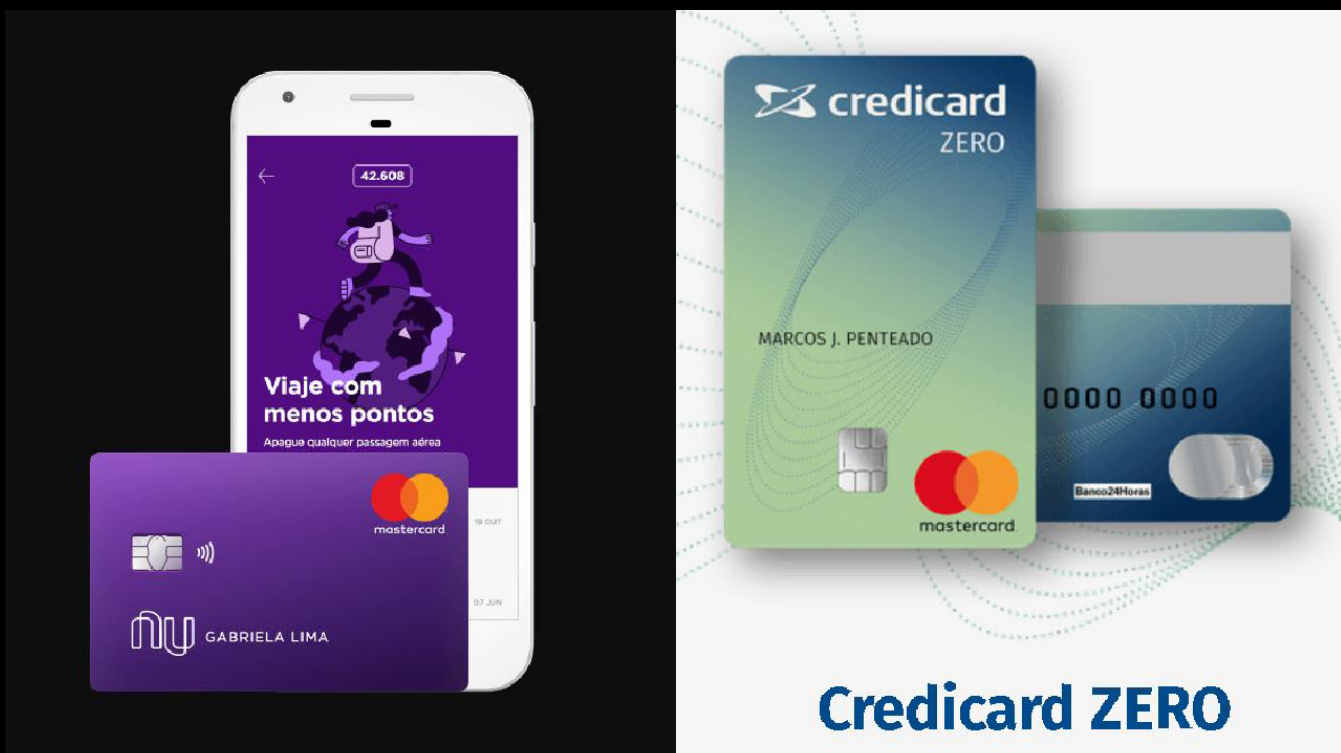
In addition, it offers a 0.5% cashback credit card product and a fixed saver account. Tracking and managing money from multiple bank accounts is a cumbersome process. Users have to perform tracking manually, find out about any discrepancies, etc., which is a time-consuming and inefficient process. It's hard for users to know where their money is being spent and saved. With innovative money-saving products, real-time alerts, notifications, and suggestions, users are able to manage their money more efficiently. With PSD2 and Open banking, Tandem can leverage its account aggregation capability to help users find the various financial products and offer seamless end-to-end services.



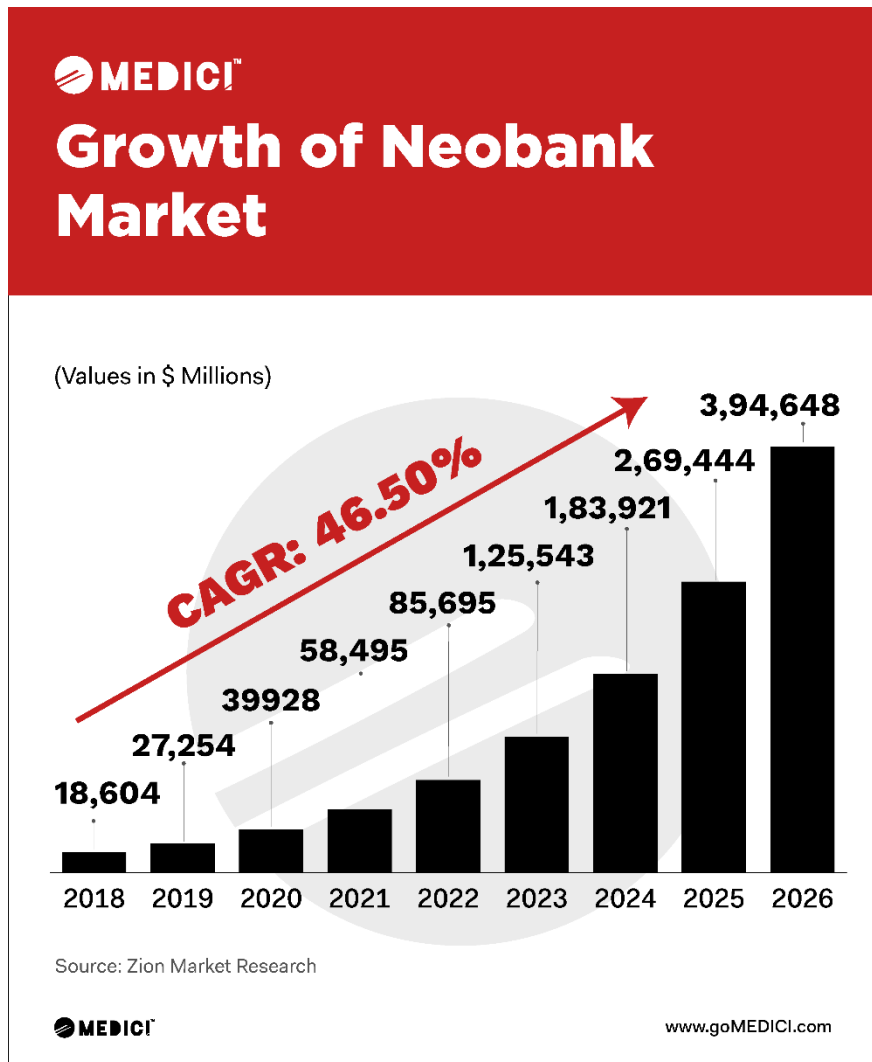
New Opportunities: The Rise of Neobanks

- **Lending/Credit Products:** Neobanks can provide credit products at lower charges and interest rates compared to traditional banks. E.g., Nubank (Brazil) does not charge fees for its credit card usage.

Nubank provides credit cards to Brazilians. It lets users lock & unlock cards, ask for a limit increase, and change the due date from the app. Nubank makes money in two ways: 1. Customer transactions; 2. Financing a part of or the total amount of consumer invoices. Nubank relies on public databases to collect data (thousands of variables related to consumption history, payments, social connect, etc.) and group customers into hundreds of different profiles. Each profile is classified into one of the three groups to screen out unqualified customers. The qualified customers are then invited (depending on group type, the time period varies from one week to 90 days). It does not charge any fee as long as customers clear their dues on time (also, no upfront or service charge as many others do in Brazil). In addition to credit cards, it also offers current account (NuConta) services and a rewards program.



Growth of Neobanks Over the Years



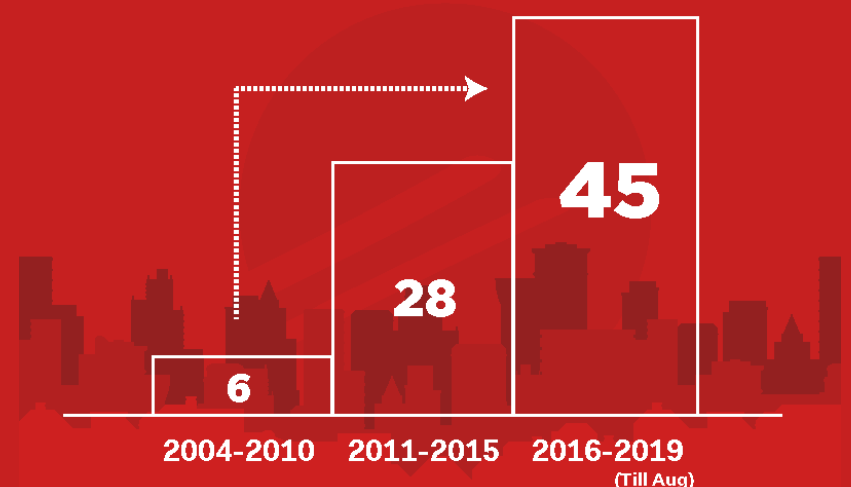
In 2018, the neobank market accounted for about **\$18,604 million**, which is expected to see a herculean growth with a CAGR of 46.5% in the coming years. The global neobank market size is expected to grow up to **\$3,94,648 million** by 2026.

Neobanking startups have been growing steadily over the last few years.

- Startup activity in this space started around 2004 and gathered pace after 2011.
- Around 50% of the startups were founded in 2016 and 2017.
- Before 2010, there were 6 such startups; by 2015, the number rose to 28.
- However, in the last three years, the number of neobanks established has increased to 45.

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Some Innovative Neobanks

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Spending overseas is one among a number of potentially fraudulent activities globally. Banks routinely suspend unusual transactions without notifying the customer or insist on a call-back to the fraud department. UK challenger bank Tandem flags potentially suspicious activity via push notification and gives users a nudge; if they confirm that it's them conducting the activity, they can continue spending hassle-free.

chime

Chime lets users get paid early up to two days with the Early Direct Deposit feature. It adds money as soon as it receives a notification of the transaction from the user's employer and immediately transfers the funds to the user's account.



Starling Bank has launched a marketplace banking platform, which integrates with financial services spanning pensions, savings, travel insurance, and mortgage brokerage. This helps Starling bank to provide users with access to a choice of third-party money-related apps & services and to create a network effect on both sides of its market.



Fiinu has developed an automated lending robot called Fiinucore which – combined with PSD2 and Open Banking – will be able to provide small overdrafts to millions of people within the payday loan price cap. This will help consumers to minimize overdraft fees.



bunq lets users link one card to two bunq bank accounts at the same time using their patent-pending Dual PIN technology. Users can also switch the accounts linked to the cards.



Online bank Tangerine also offers its banking services (account opening, cheque deposit, account checking, etc.) to customers through cafés, pop-up locations, and kiosks. People can come to talk about their finances and savings goals face-to-face.



In a world where businesses would spend hours trying to reconcile all their transactions and be forced to juggle between multiple tools to manage their finances, Open provides an easy solution. It helps collect payments, auto-reconcile transactions, make seamless payouts, auto-generate accounting reports, do expense management, all on a single platform. Open also exposes developer friendly APIs for SMEs & startups to integrate banking into their business workflows.



Root provides a bank account with full API access, which is developed in partnership with Standard Bank. It lets developers control their money programmatically, build their own features such as fetch transactions, view balances, make payments, or update beneficiaries, etc. It comes with a programmable Mastercard.



BankMobile Vibe provides a student-focused, digital-only, non-interest-bearing checking account with free access to over 55,000 ATMs and features such as money management tools.



BABB is building a decentralized banking platform that leverages blockchain and biometrics, which will enable anyone to access a UK bank account and P2P financial services.



Pepper, an Israeli mobile-based bank, offers live customer service by professional bankers available around the clock (24/7) via video chat.



Rise, a digital banking app for migrant workers in the UAE, helps domestic workers (the majority of whom remain unbanked), to become financially independent. It provides banking services in partnership with United Arab Bank. It has also tied up with UAE Exchange to offer better exchange rates for migrant workers.

We have conducted a deep-dive into some of these innovative neobanks in later sections of this report.

03.

Neobanking, Globally: Region-Wise Analysis.

Neobanks: Region-Wise Analysis






































The region-wise break-up shows the maximum concentration of neobanks in Europe, followed by the Americas.

One finds that the UK has a high concentration of challenger and neobanks owing to two factors, chiefly. One: compared to the US, which has very high numbers of large banks, the UK has far fewer. Two: when it comes to digital banking, the UK can be considered an early adopter, going back to the dotcom boom between the late '90s and early '00s. This provided it a 'prime-mover' advantage, through which the UK came to be at the forefront of challenger/neobanks and alternative models. Another factor providing the UK with an edge in this space is the EU's common standards being introduced, which has aided neobanks rapidly expand their customer base while remaining in compliance with regulations.








































The first cohort of challenger banks that emerged was from Europe with the likes of Atom Bank, Tandem Bank, Monzo, Starling Bank, Revolut, and N26.

However, one interesting trend that came out from this graph is that most Asian neobanks have been founded after 2013.

Global Challenger/Neobank List

Name	Country	Founding Year	Domain	Funding (\$ Mn)
 agibank	Brazil	2017	agibank.com.br	Unfunded
 ARIVAL	Singapore	2018	ariv.al	1.3
 Atom bank	United Kingdom	2014	atombank.co.uk	538
 Avuba	Germany	2013	avuba.de	0.0005
 azlo	United States	2017	azlo.com	Unfunded
 CLEARLY	United Arab Emirates	2016	bankclearly.co	Unfunded
 Bank Zero	South Africa	2016	bankzero.co.za	Unfunded
 BANKERA	British Virgin Islands	2017	bankera.com	0.146
 cashplus	United Kingdom	2004	cashplusgroup.com	Unfunded
 Chetwood Financial Limited	United Kingdom	2016	chetwood.co	-
 chime	United States	2013	chimebank.com	308.8
 Coconut	United Kingdom	2016	getcoconut.com	2
 Counting up	United Kingdom	2017	countingup.com	3.75
 Every.	Canada	2017	getevery.com	-
 fidor BANK	Germany	2009	fidor.de	-
 iammoney	United States	2016	iammoney.com	-
 Jela	Kenya	2016	jhela.co.ke	-
 JOUST	United States	2017	joust.com	6.8
 KOH O	Canada	2014	koho.ca	52.6
 kuda.	Nigeria	2017	kudabank.com	Undisclosed
 LINTEL	United Kingdom	2014	lintelbank.com	Undisclosed
 lunar way	Denmark	2015	lunarway.com	24.2
 mashaven	United Kingdom	2004	mashaven.co.uk	72.88
 medirect	Malta	2013	medirect.com.mt	-
 monese	United Kingdom	2013	monese.com	79.18
 BRABANK	Norway	2015	brabank.no	Unfunded
 monzo	United Kingdom	2015	monzo.com	422
 MyBank	China	2015	mybank.cn	-
 N26	Germany	2013	n26.com	683
 neat	Hong Kong	2015	neat.hk	5
 neon	Brazil	2016	neon.com.br	25.5
 NorthOne	United States	2016	northone.com	2.3
 NOW	United Arab Emirates	2015	nowmoney.me	2.3
 nubank	Brazil	2013	nubank.com.br	800
 niyo	India	2015	goniyo.com	49.2
 OakNorth	United Kingdom	2015	oaknorth.com	1000
 open	India	2017	bankopen.com	35
 Oxygen	United States	2017	getoxygen.com	2.3
 paytm	India	2017	paytmbank.com	Unfunded
 PENTA	Germany	2017	getpenta.com	11.6

Global Challenger/Neobank List

Name	Country	Founding Year	Domain	Funding (\$ Mn)
 qonto	France	2016	qonto.eu	36.6
 Revolut	United Kingdom	2015	revolut.com	344
 SIMPLE	United States	2009	simple.com	15.3
 STARLING BANK	United Kingdom	2014	starlingbank.com	180
 SunTrust	Nigeria	2016	suntrustng.com	-
 TANDEM	United Kingdom	2013	tandem.co.uk	80
 tide	United Kingdom	2015	tide.co	17.8
 Тинькофф	Russia	2006	tinkoff.ru	90
 VARO	United States	2015	varomoney.com	178.4
 VOLT	Australia	2017	voltbank.com.au	45
 WeBank	China	2014	webank.com	450
 XINJA	Australia	2017	xinja.com.au	4.8
 yomo	Germany	2016	yomo.de	Unfunded
 Shine	France	2017	shine.fr	12.5
 Chetwood Financial Limited	United Kingdom	2016	chetwood.co	182.19
 ANNA	United Kingdom	2017	anna.money	\$11.10
 COGNI	United States	2016	cogni.is	3.1
 step	United States	2018	step.com	26.3
 albo	Mexico	2016	albo.mx	8.5
 POINT	United States	2018	point.app	1.4
 86400	Australia	2017	86400.com.au	Unfunded
 solarisBank	Germany	2016	solarisbank.de	105
 Empower	United States	2016	empower.me	4.5
 Aspiration	United States	2013	aspiration.com	67.5
 denizen	United States	2016	denizen.io	Unfunded
 NICKEL	France	2012	compte-nickel.fr	11.6
 douugh	Australia	2016	douugh.com	2.5
 dot	United Kingdom	2015	https://getdot.io/	Unfunded
 FEROCIA	Australia	2014	ferocia.com.au	Unfunded
 Fiinu	United Kingdom	2017	fiinu.com	Unfunded
 Instabank	Norway	2016	instabank.no	Unfunded
 payzello	India	2017	payzello.com	117K
 XPENCE	UAE	2017	xpence.co	Unfunded
 wizink	Spain	2016	wizink.es	Unfunded
 lunar way	Denmark	2015	lunarway.com	24.2
 loan2cash	France	2017	loan2cash-app.com	Unfunded
 fire	Dublin	2009	fire.com	Unfunded
 FLINK	Mexico	2017	miflink.com	Undisclosed Seed
 WINK	United States	2016	holawink.com	Unfunded

04.

Prominent Global Neobanks: A Deep-Dive.



Revolut

PRODUCT & SERVICES

Product offerings include current account, mobile phone insurance, medical insurance, budgeting, global transfer, cryptocurrency, debit card, and loan.

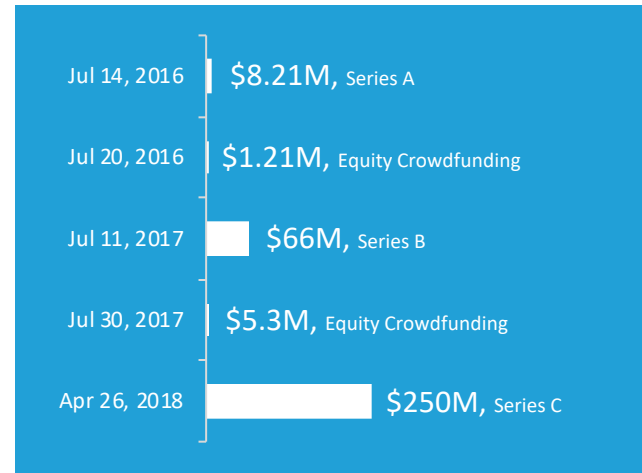
FOUNDING YEAR

2015

TOTAL FUNDING

Total : \$336M

FUNDING HISTORICAL TRENDS



REVENUE MODEL

- Subscription premium accounts
- Revolut also charges exchange rate fee between currencies on weekends only
- Loans at 9.9% APR

VALUATION

\$1.7B (Q1 2019)

PARTNERSHIPS

- PensionBee
- Trussle
- Bricklane.com
- Lending works
- Simple
- ETF Matic
- Optimal Payments
- ClauseMatch
- InComm
- QIWI
- Xero

COMPETITION

N26, WorldRemit, TransferWise, WeSwap, Juspay, Braintree, and Swissquote.

LICENSE

Full banking license

OPEN BANKING

Yes

GLOBAL EXPANSION (INTER EU, US, EMERGING COUNTRIES)

Currently in Europe and Australia; plans to launch in the US, Canada, New Zealand, Singapore, and Japan.

TOTAL USERS COUNT

5M+ users; 250K daily active users

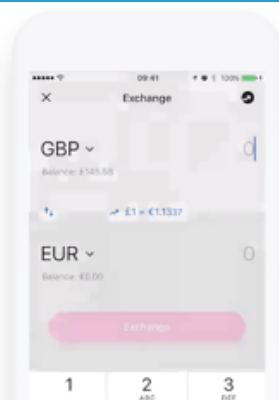
TRANSACTION VOLUME (DEPOSITS, ASSETS)

Total transaction volume of over \$25B to date. Monthly transaction volumes jumped from \$200M to \$1.5B.

5

Exchange 5 cryptocurrencies

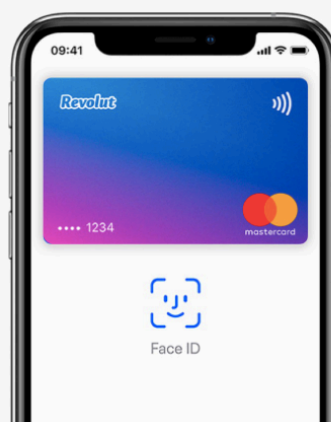
Instantly exchange any of our 29 currencies directly into Bitcoin, Litecoin, Ethereum, Bitcoin Cash and XRP, and all without breaking a sweat.



Revolut | Apple Pay

Users can exchange more than 29 cryptocurrencies

Revolut | Apple Pay



Revolut + Apple Pay

Getting started

Introduction to Revolut Open Banking API v3.1

Welcome to the Revolut Open Banking API! Here you will find all the information to get started with Open Banking API. We're building a future beyond banking, we're excited to have you onboard.

To help you navigate the docs, this page is split into 3 vertical sections:

- the navigation menu and search on the left,
- the content in the middle,
- and usage examples on the right.

Please note that in order to use the open banking api, you need to first enroll as a TPP in [open banking directory](#) and then follow the official Open Banking API v3.1 documentation can be found [here](#)

This Open Banking API can be used to access the accounts of customers of both Revolut Ltd (UK) and Revolut Payments UAB (Lithuania)

The Open API allows business customers to make the Revolut platform more integral to overall business operations

N26

PRODUCT & SERVICES

Product offerings include current account, mobile phone insurance, travel medical insurance, financial management, debit card, and loan.

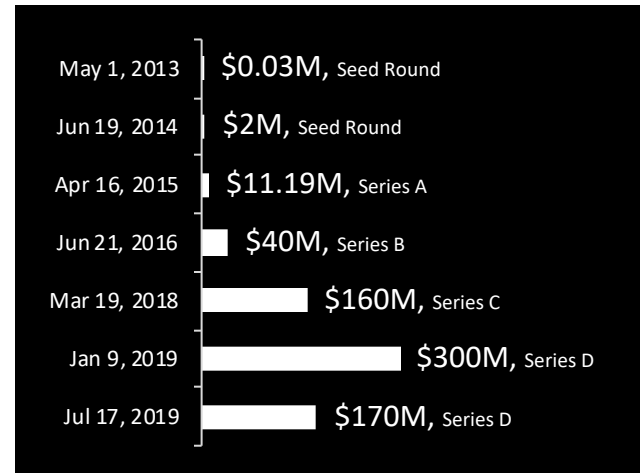
FOUNDING YEAR

2013

TOTAL FUNDING

Total : \$682.8M

FUNDING HISTORICAL TRENDS



REVENUE MODEL

- N26 offers a free basic account and then has two-tiered subscription options for N26 Black and N26 Metal.

VALUATION

\$2.7B (Q1 2019)

PARTNERSHIPS

- Token.io
- Barzahlen
- TransferWise
- Clark
- auxmoney
- Raising
- Vaamo
- Nutmeg
- OptioPay
- Amazon
- Lending club
- Robinhood
- FinanceFox
- Mastercard
- Allianz
- Mambu

COMPETITION

Starling Bank, Revolut, Curve, and TransferWise.

LICENSE

Full banking license

OPEN BANKING

Yes

GLOBAL EXPANSION (INTER EU, US, EMERGING COUNTRIES)

The US and 24 European countries.

TOTAL USERS COUNT

3.5M+ users; N26 currently handles a volume of €2B per month, which represents 400 transactions per minute.

TRANSACTION VOLUME (DEPOSITS, ASSETS)

€20B in transaction volume till February 2019.

More than a bank account

Sometimes you need more than just a card for accessing your money. N26 premium memberships offer additional benefits such as free worldwide ATM withdrawals, travel insurance and mobile theft cover.

[Open Bank Account](#)



Premium memberships that offers benefits like travel insurance, mobile theft cover, and free worldwide ATM withdrawals



Contactless card for business account

Get cashback with N26 Business

Free and premium accounts for freelancers and the self-employed give you 0,1% cashback on all purchases made with your N26 Mastercard. Business You's travel insurance and extended warranty cover lets you go global, while focusing on the task at hand.

[Discover N26 Business >](#)

Cashback offers by using N26 Mastercard



PRODUCT & SERVICES

Instant payment account, Unified dashboard to manage multiple bank accounts, Swift expense management that comes integrated with expense cards, Invoicing, Quick Bulk Payouts, Developer-friendly APIs, Simplified payment gateway, Automated accounting & bookkeeping & Credit cards built exclusively for startups.

FOUNDING YEAR

2017

TOTAL FUNDING

Total : \$35M

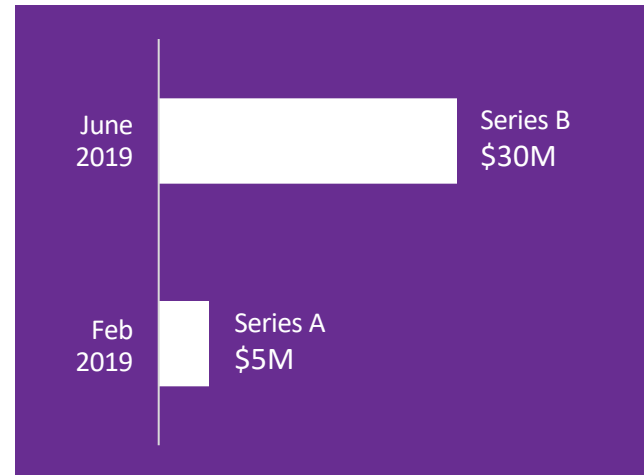
REVENUE MODEL

- SaaS & per transaction; revenue share for issuer commission for cards.

VALUATION

\$150M as of Series B

FUNDING HISTORICAL TRENDS



PARTNERSHIPS

- ICICI Bank & 9 other banks
- Visa

COMPETITION

No direct competitors in India.

LICENSE

No license

OPEN BANKING

Yes

GLOBAL EXPANSION (INTER EU, US, EMERGING COUNTRIES)

APAC, the Middle East, and the US.

TOTAL USERS COUNT

1,00,000+ SMEs

TRANSACTION VOLUME (DEPOSITS, ASSETS)


\$5.5B in transaction volume; INR 2500 crores in deposits.

START SWIPING TODAY

The Business Card you've been waiting for
Manage your team's expenses seamlessly with the Open Business Card that comes integrated with your banking and accounting

- Get a boss-level view of your team's spend
- Set limits and control your team's spends seamlessly
- Easily track online & offline expenses
- Manage receipts on-the-go with WhatsApp

GET YOUR CARD

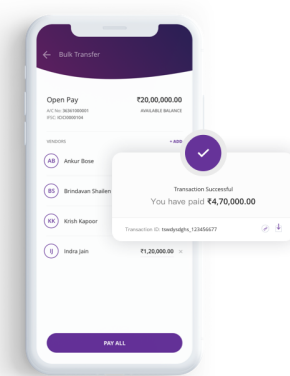


Business Card for managing expenses

RECLAIM YOUR TIME

Business Banking Done Right
Hustle your way through finances with Open's business banking services

- Get started instantly: Get an account with an A/C number & IFSC code in 2 minutes.
- Expense management simplified: Easily assign Open Cards to your teammates and manage team spends.
- Easy bulk payouts: Make bulk payouts to vendors & employees, seamlessly.
- Manage 60+ bank accounts: Get a new current account or link your existing ones in minutes.
- Make bookkeeping a breeze: Automate bookkeeping and focus on better things.
- Simplified Payment Gateway: Feature-rich payment gateway which you can integrate anywhere easily.



Business Banking Solutions



PRODUCT & SERVICES

Product offerings include current account, insurance, B2B accounts, money transfers, debit card, and loan.

FOUNDING YEAR

2014

TOTAL FUNDING

Total : \$283.12M

FUNDING HISTORICAL TRENDS



REVENUE MODEL

- Net interest income
- Treasury income
- Interchange income
- Fees & commissions

VALUATION

NA

PARTNERSHIPS

- PensionBee
- Yolt
- Flux
- Yoyo
- Tail
- Moneybox
- KASKO
- Habito
- Bottomline
- Raisin
- Wealth Simple
- CreditLadder
- FreeAgent
- Tribe Payments
- Direct Line
- Post Office
- Garmin Pay

COMPETITION

Monzo and Revolut.

LICENSE

Full banking license

OPEN BANKING

Yes

GLOBAL EXPANSION (INTER EU, US, EMERGING COUNTRIES)

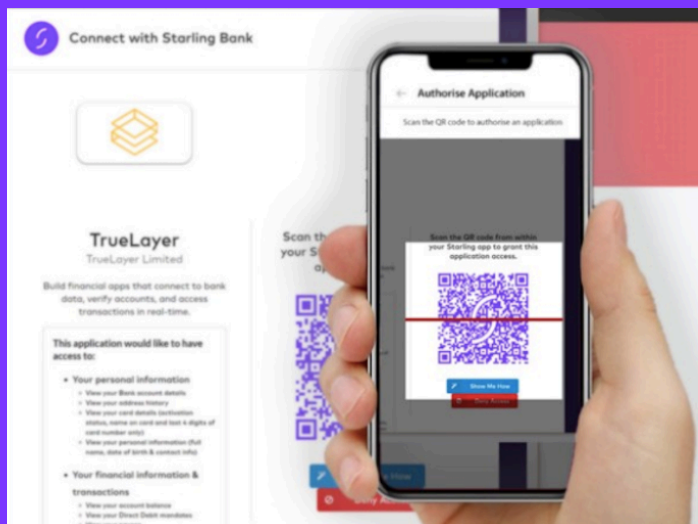
Currently in the UK; recent funding to be used for global expansion.

TOTAL USERS COUNT

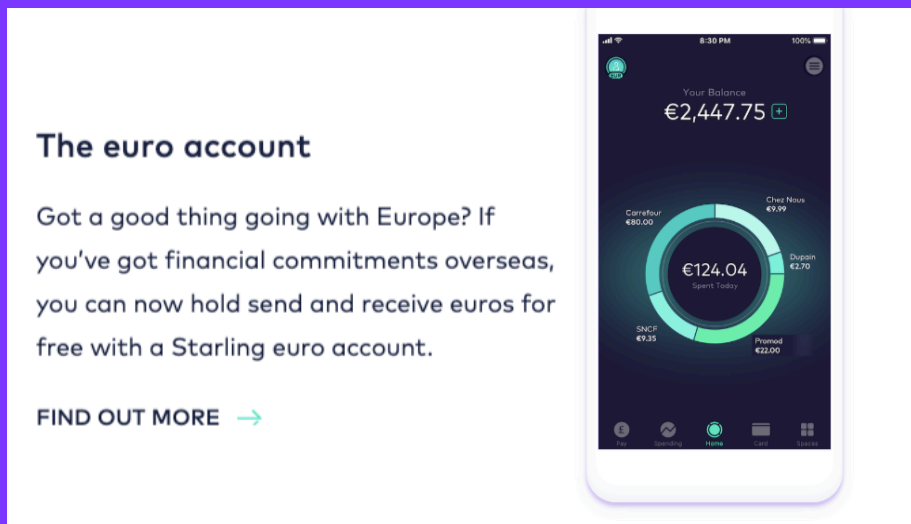
700,000 users

TRANSACTION VOLUME (DEPOSITS, ASSETS)

\$600M on deposit



APIs for developers



Users can send and receive money throughout Europe for free via their euro account



PRODUCT & SERVICES

Product offerings include current account, money transfer, overdraft, and loan.

FOUNDING YEAR

2015

TOTAL FUNDING

Total : \$394.54M

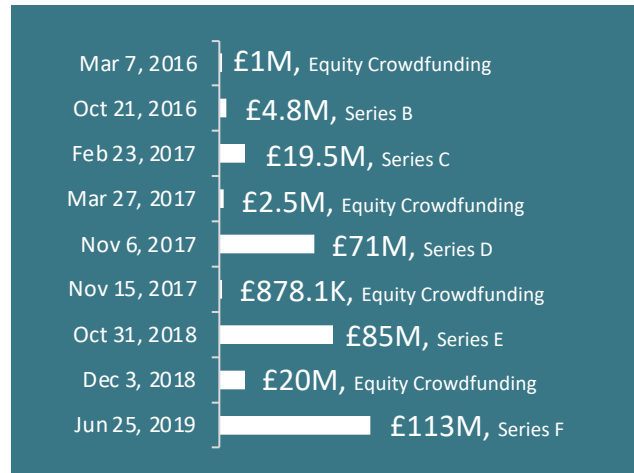
REVENUE MODEL

- Monzo makes money in the UK through services on top of a bank account, like selling insurance or collecting fees from overdrafts.

VALUATION

\$2.5B

FUNDING HISTORICAL TRENDS



PARTNERSHIPS

- Jumio
- TransferWise
- Sutton Bank
- Xero
- FreeAgent
- OakNorth
- Flux
- Shawbrook
- bank
- Moneybox
- PayPoint
- Funding Xchange
- UK Financial Capability Lab

COMPETITION

N26, Curve, Tandem, Monese, Starling Bank, Atom Bank, and Nubank.

LICENSE

Full banking license

OPEN BANKING

Yes

GLOBAL EXPANSION (INTER EU, US, EMERGING COUNTRIES)

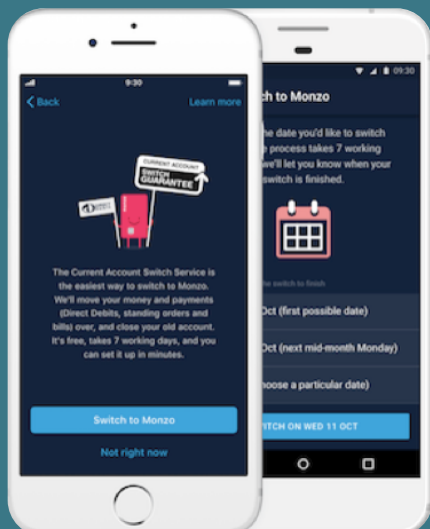
Currently in UK; plans to launch in the US in 2019.

TOTAL USERS COUNT

2.2M users

TRANSACTION VOLUME (DEPOSITS, ASSETS)

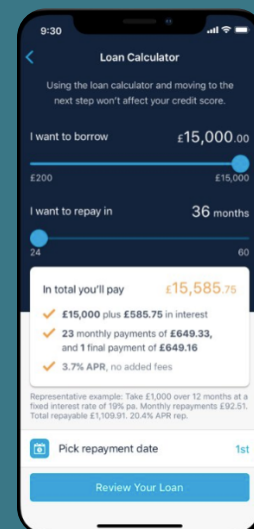
£461.8M as of February 2019.



Offers a Current Account Switch Service that enables users to switch to Monzo without any hassles



Enables users to use the Monzo Card globally and withdraw money for free



Loan calculator for users to understand their loan



PRODUCT & SERVICES

Product offerings include mortgage, term deposit account, business loan, B2B account, and savings account.

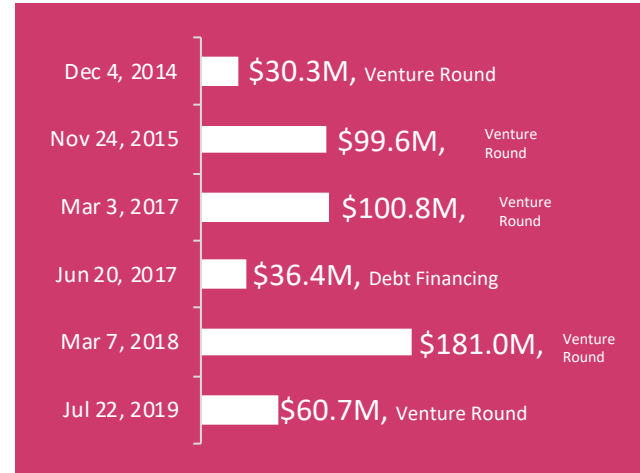
FOUNDING YEAR

2014

TOTAL FUNDING

Total : \$521.28M

FUNDING HISTORICAL TRENDS



REVENUE MODEL

- Net interest income
- Treasury income
- Fees & commissions from upselling their services and promoting a choice of brokers, earning commission.

VALUATION

\$660M (July 2019)

PARTNERSHIPS

- Thought Machine
- Deposit Solutions

- Bacs
- TruNarrative
- MuleSoft

COMPETITION

Monese, Monzo, Revolut, and Starling Bank.

LICENSE

Full banking license

OPEN BANKING

Yes

GLOBAL EXPANSION (INTER EU, US, EMERGING COUNTRIES)

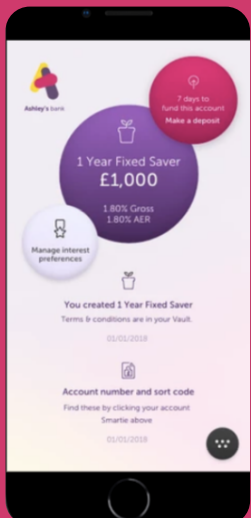
Primarily in the UK

TOTAL USERS COUNT

65,000 customers as of October 2018

TRANSACTION VOLUME (DEPOSITS, ASSETS)

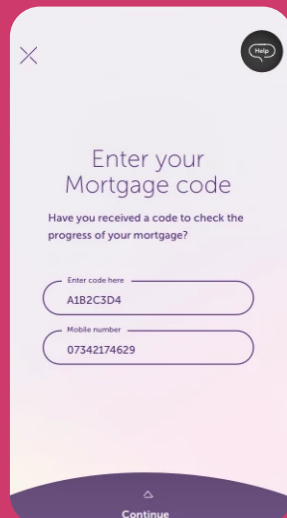
The bank estimates that its total lending amounts for homeowners and small businesses is £2.4B, supported by growth in deposits to £1.8B.



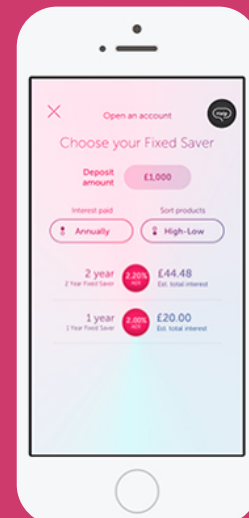
Fixed saver for a particular period of time



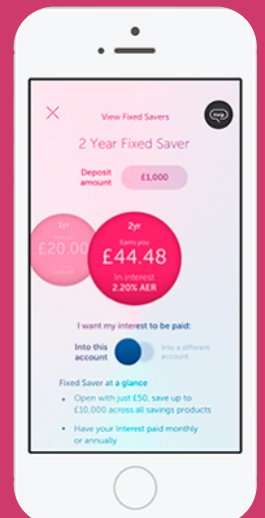
Uses face and voice as passwords



Check for mortgage with the help of a code



Fixed savers for users up to 2 years



Fixed savings up to 2.06% AER

WeBank

PRODUCT & SERVICES

Product offerings include SME finance, financial management, consumer loan, and auto loan.

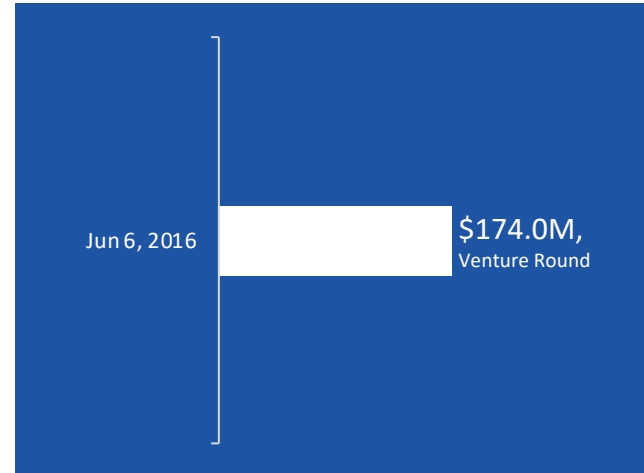
FOUNDING YEAR

2014

TOTAL FUNDING

Total : \$174.08M

FUNDING HISTORICAL TRENDS



REVENUE MODEL

- Interest income from loans

VALUATION

\$21.3B as of November 2018

PARTNERSHIPS

- More than 14 partners (banks and financial institutions)

COMPETITION

MyBank

LICENSE

Full banking license

OPEN BANKING

Yes

GLOBAL EXPANSION (INTER EU, US, EMERGING COUNTRIES)

Primarily in China; plans to launch in Australia by 2019.

TOTAL USERS COUNT

1B monthly users

TRANSACTION VOLUME (DEPOSITS, ASSETS)

The company's lending volume reached about 120B yuan (\$17.3B) in 2018.



Auto loan



Smart retail



Personal finance management for underbanked population

MyBank

PRODUCT & SERVICES

Product offerings include SME financing to small and medium-sized businesses.

FOUNDING YEAR

2015

TOTAL FUNDING

Total : Looking to raise \$871M

FUNDING HISTORICAL TRENDS

Looking to raise about 6B yuan (\$87M) in its maiden fundraising, valuing the company at 24B yuan.

REVENUE MODEL

- Interest rates of 6-16%

VALUATION

NA

PARTNERSHIPS

- NA

COMPETITION

WeBank

LICENSE

Full banking license

OPEN BANKING

No

GLOBAL EXPANSION (INTER EU, US, EMERGING COUNTRIES)

Only in China

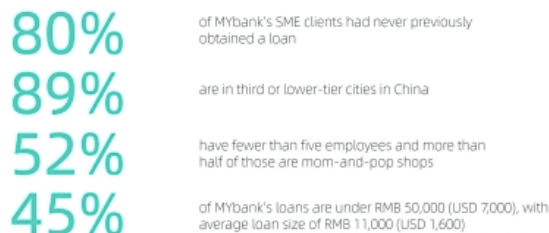
TOTAL USERS COUNT

76.7M registered users as of March 2019

TRANSACTION VOLUME (DEPOSITS, ASSETS)

Has disbursed loans of \$290B as of July 2019.

MyBank's "310" lending model enables inclusive finance for SMEs in China*



*According to a MyBank user survey as of February 2019.



旺农贷

Pure credit internet loan products for users in rural areas and rural areas

- No mortgage, no guarantee
- Easy to complete in three steps
- The fastest 3-5 days loan

Learn more



Innovative 310 lending model to approve & disburse loans

Credit/loan products for rural population



PRODUCT & SERVICES

Product offerings include financial management, home loan, debit card, and prepaid card.

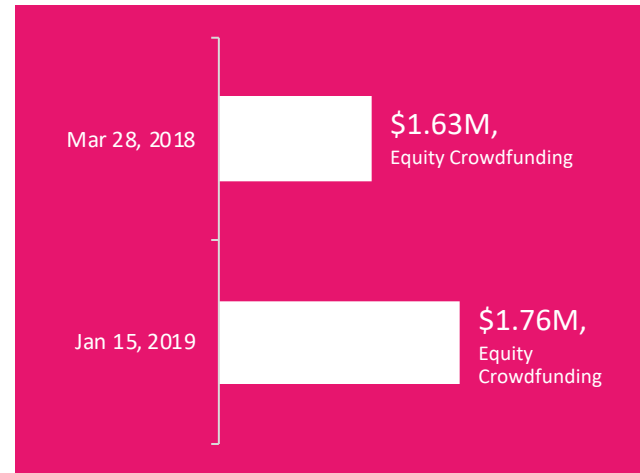
FOUNDING YEAR

2017

TOTAL FUNDING

Total : \$3.4M

FUNDING HISTORICAL TRENDS



REVENUE MODEL

- Interest Income

VALUATION

\$94.2M as of January 2019

PARTNERSHIPS

- NA

COMPETITION

Volt, Revolut, and 86 400.

LICENSE

Lite banking license

OPEN BANKING

Yes

GLOBAL EXPANSION (INTER EU, US, EMERGING COUNTRIES)

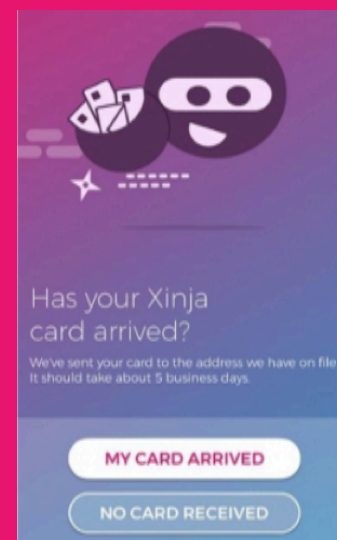
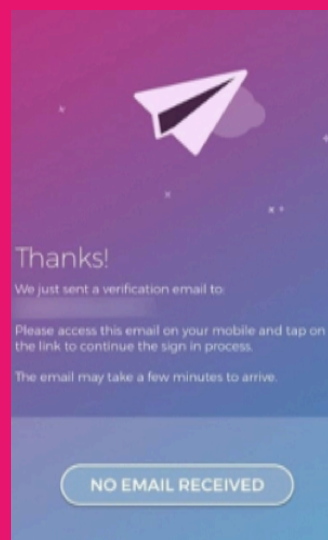
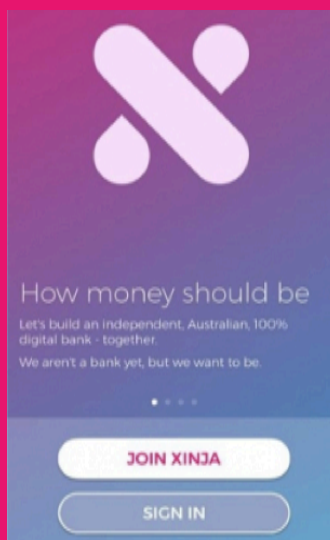
Only in Australia

TOTAL USERS COUNT

23,000 as of January 2018

TRANSACTION VOLUME (DEPOSITS, ASSETS)

NA



Intuitive interface for first-time app set up

VOLT

PRODUCT & SERVICES

Product offerings include a savings account for users.

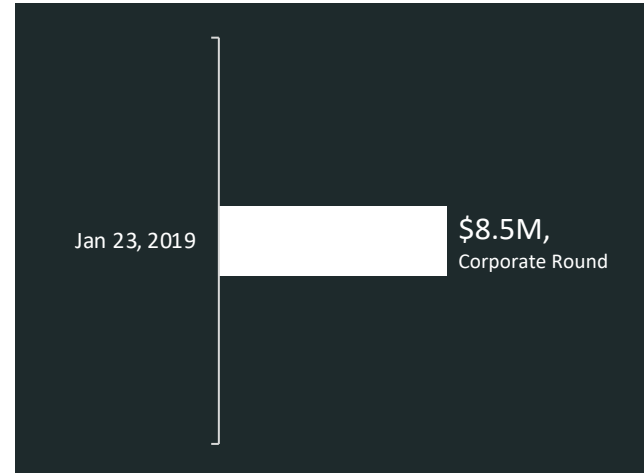
FOUNDING YEAR

2017

TOTAL FUNDING

Total : \$8.5M

FUNDING HISTORICAL TRENDS



REVENUE MODEL

- Yet to announce

VALUATION

NA

PARTNERSHIPS

- Temenos
- PayPal
- iWire
- Iress

COMPETITION

Xinja, Revolut, and 86 400.

LICENSE

Full banking license

OPEN BANKING

Yes

GLOBAL EXPANSION (INTER EU, US, EMERGING COUNTRIES)

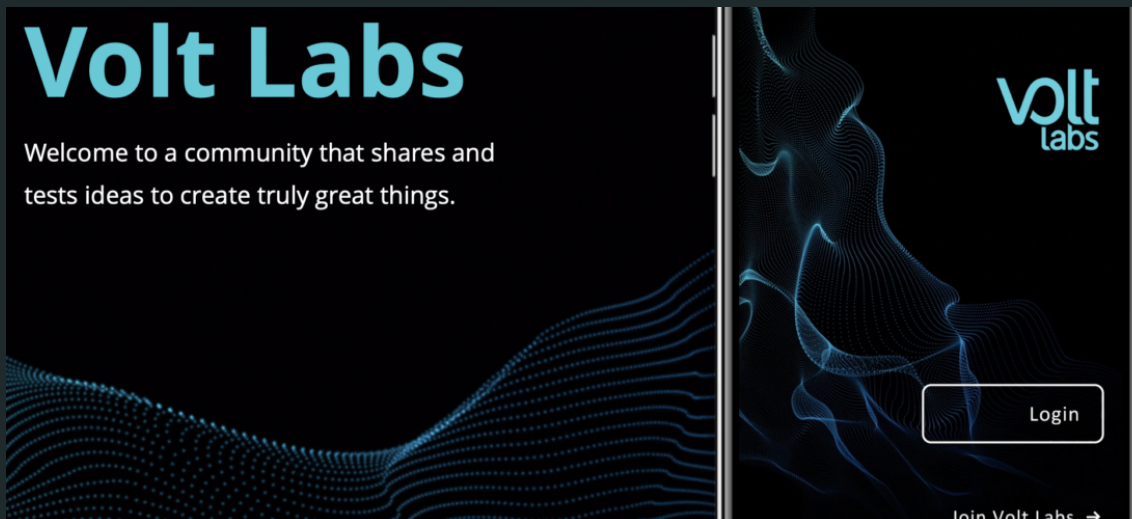
Only in Australia

TOTAL USERS COUNT

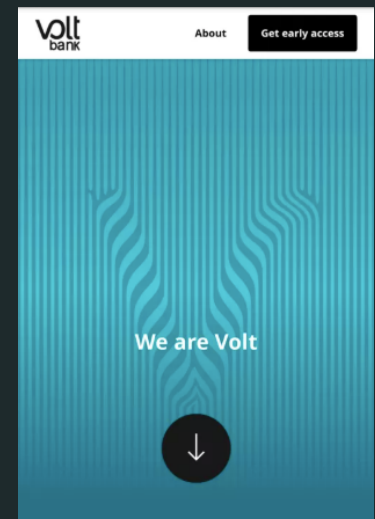
Yet to register

TRANSACTION VOLUME (DEPOSITS, ASSETS)

Yet to launch



Community for sharing and testing ideas



Soon to be launched



PRODUCT & SERVICES

Product offerings include 12/24/36-month fixed rate cash ISA, cash ISA, B2B account, term deposit account, investment, and loan.

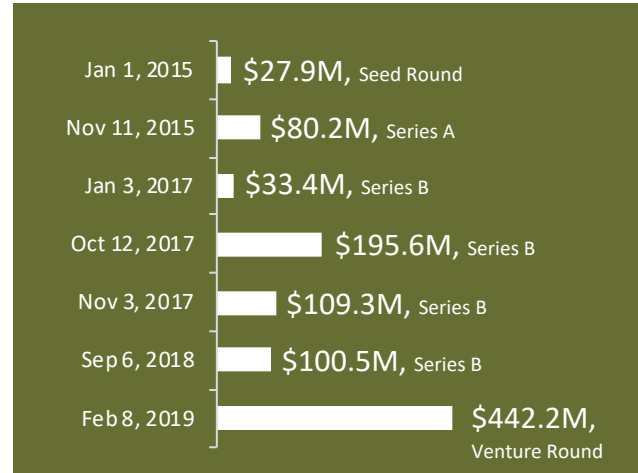
FOUNDING YEAR

2015

TOTAL FUNDING

Total : \$1B

FUNDING HISTORICAL TRENDS



REVENUE MODEL

- Interest income

VALUATION

\$2.8B as of February 2019

PARTNERSHIPS

- NA

COMPETITION

Atom, Starling, Revolut, and Monzo.

LICENSE

Full banking license

OPEN BANKING

Yes

GLOBAL EXPANSION (INTER EU, US, EMERGING COUNTRIES)

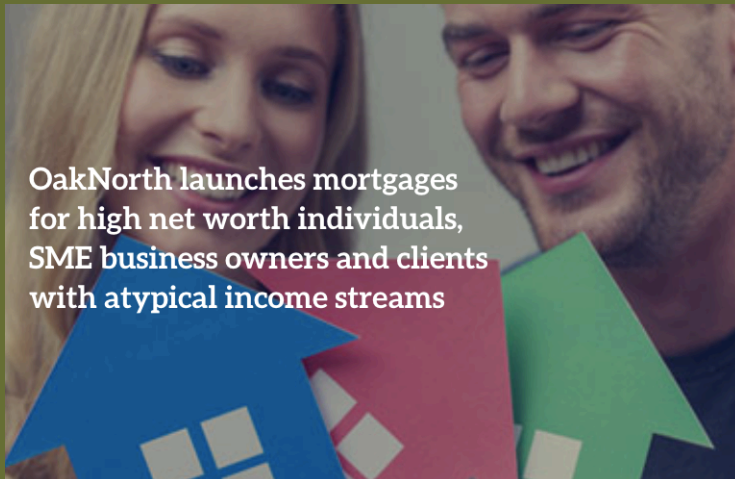
Only UK; currently no plans to acquire licenses elsewhere, but has plans to go global through its subsidiary OakNorth AI.

TOTAL USERS COUNT

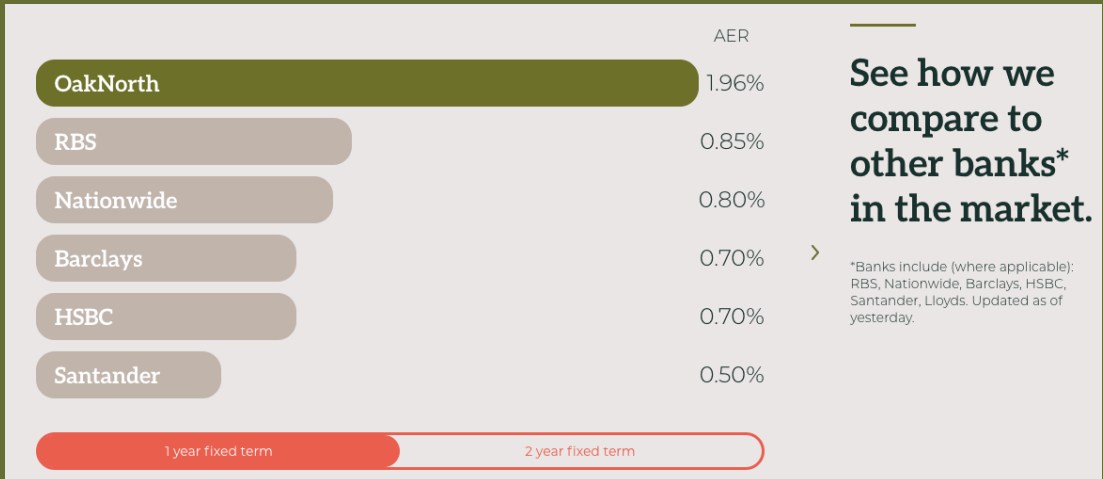
55,000 savings customers

TRANSACTION VOLUME (DEPOSITS, ASSETS)

The bank currently has a loan book of more than \$2B.



OakNorth launches mortgages for high net worth individuals, SME business owners and clients with atypical income streams



See how we compare to other banks* in the market.

*Banks include (where applicable): RBS, Nationwide, Barclays, HSBC, Santander, Lloyds. Updated as of yesterday.

Mortgage product for high-net-worth individuals and SMEs

Competitive rates compared to other banks in the market



PRODUCT & SERVICES

Product offerings include savings account, loan, and credit card with an annuity fee.

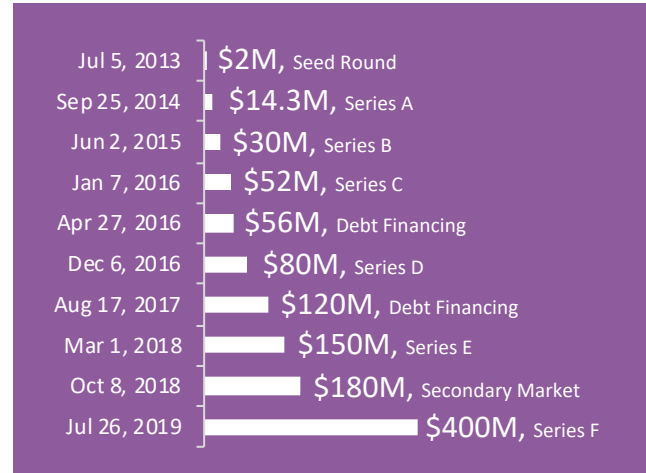
FOUNDING YEAR

2013

TOTAL FUNDING

Total : \$820M

FUNDING HISTORICAL TRENDS



REVENUE MODEL

- Interchange fees whenever its card is swiped.
- Foreign exchange fees for international transactions and interest on unpaid balances.
- Digital accounts generate interest income from investments.
- Charges fixed fees every time its debit card is used to withdraw money.

VALUATION

\$10B as of July 2019

PARTNERSHIPS

- NA

COMPETITION

N26 and Digo.

LICENSE

Full banking license

OPEN BANKING

No

GLOBAL EXPANSION (INTER EU, US, EMERGING COUNTRIES)

Primarily Brazil; international expansion to start with Mexico and Argentina.

TOTAL USERS COUNT

10–12 million customers

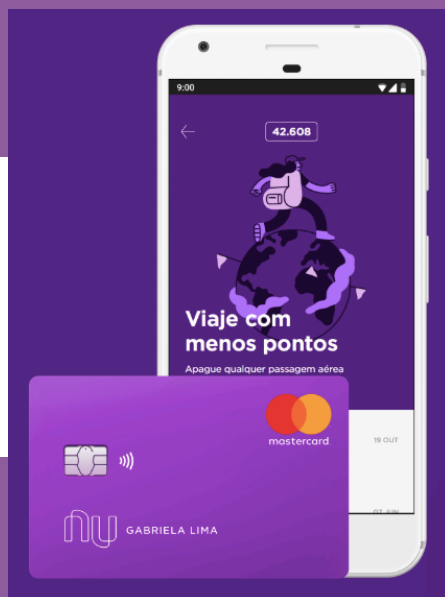
TRANSACTION VOLUME (DEPOSITS, ASSETS)

\$5B in transaction volume; INR 2500 crores in deposits.

Credit Card

Modern, simple, and free. Everything to keep control in your hands.

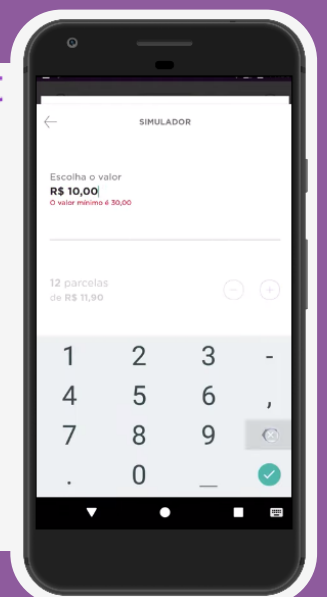
Offers a credit card to its users



Run a simulation to do it your way

You can't tell if you're making a good choice unless you know exactly what you're choosing. Run a simulation before taking out your loan, and you'll see exactly how much and when you'll have to pay. Everything transparent, simple and clear on your screen.

Loan stimulator to verify selection





chime

PRODUCT & SERVICES

Product offerings include debit card and investment.

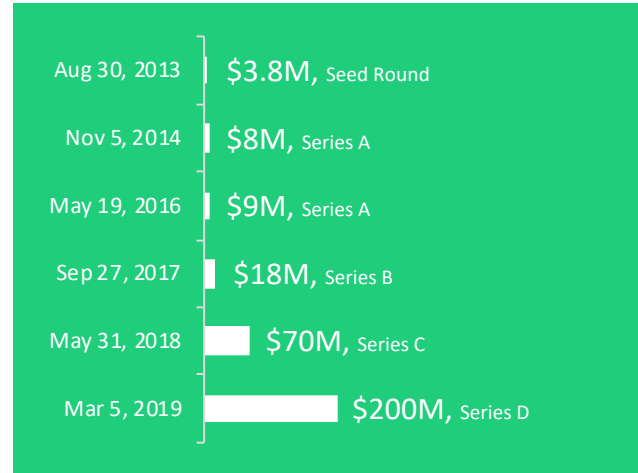
FOUNDING YEAR

2013

TOTAL FUNDING

Total : \$308.8M

FUNDING HISTORICAL TRENDS



REVENUE MODEL

- Debit card transaction fee – earns about 1.5% in interchange revenue from Visa.

VALUATION

\$1.4B as of March 2019

PARTNERSHIPS

- Green Dot Bank

COMPETITION

Simple and Moven.

LICENSE

No banking license

OPEN BANKING

NA

GLOBAL EXPANSION (INTER EU, US, EMERGING COUNTRIES)

Only the United States

TOTAL USERS COUNT

3M users as of March 2019

TRANSACTION VOLUME (DEPOSITS, ASSETS)

Chime's monthly transaction volume tops \$1B; about \$10B in transaction volume across its cards as of January 2019.



Access Your Money Instantly from other Chime Members.

Pay Friends is different than other Peer 2 Peer (P2P) payment apps because Pay Friends is connected to your bank account. No need to worry about connecting your Chime Spending Account to yet another money transfer app, simply use Pay Friends with total convenience.

Get paid up to 2 days early with direct deposit.¹

Get your paycheck early! That's two more days to do more with your money. Stop waiting and start getting paid early with early direct deposit!

Enter your email

Get Started



Users can get paid two days prior to their deposit with early direct deposit



TANDEM

PRODUCT & SERVICES

Product offerings include automated savings, term deposit account, investment, and credit card.

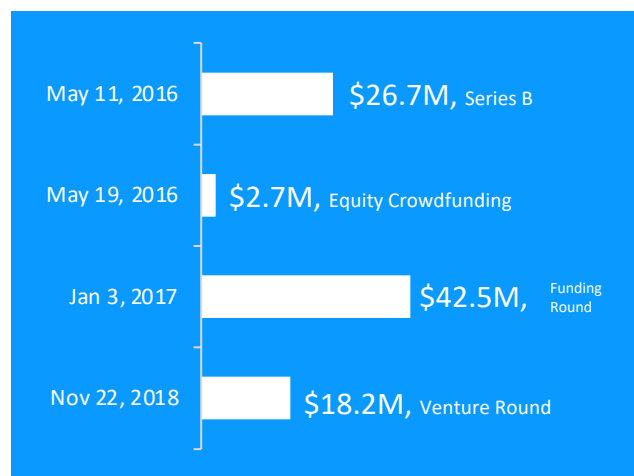
FOUNDING YEAR

2013

TOTAL FUNDING

Total : \$90.28M

FUNDING HISTORICAL TRENDS



REVENUE MODEL

- Fees and commissions by upselling their credit cards.
- Tandem makes money from customers buying into their product.
- Credit card interest & fees: Credit card withdrawal fees and 18.9% APR on the service.

VALUATION

No Official Record

PARTNERSHIPS

- Token
- Personetics
- Stripe
- Convoy

COMPETITION

Starling, Monzo, Atom, and Revolut.

LICENSE

Full banking license

OPEN BANKING

Yes

GLOBAL EXPANSION (INTER EU, US, EMERGING COUNTRIES)

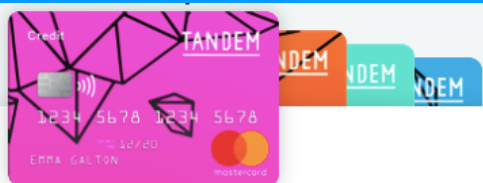
Primarily the UK; planned expansion to Hong Kong in 2019. Also plans to launch trials in the rest of Europe in 2019.

TOTAL USERS COUNT

500,000

TRANSACTION VOLUME (DEPOSITS, ASSETS)

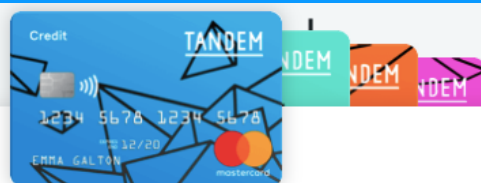
Customers have spent over £100 million on their credit cards (January 2019)



Journey Credit Card

- Helps you to build your credit history
- No fees on purchases abroad
- 24.9% APR (variable, representative)
- Initial credit limits from £500 to £1,500
- For credit card users with limited credit history

A journey credit card that enable users to build their credit history



Cashback Credit Card

- 0.5% cashback on worldwide purchases
- No fees on purchases abroad
- 18.9% APR (variable, representative)
- Initial credit limits from £500 to £12,000
- For credit card users with good credit history

Users can win cashback rewards with the usage of credit cards



PRODUCT & SERVICES

Varo provides checking account, savings account, direct deposit, online bill payment, debit card, predictive forecast of cash flow, line of credit, and an unsecured loan through its app (currently with the backing of The Bancorp).

FOUNDING YEAR

2015

TOTAL FUNDING

Total : \$174.8M

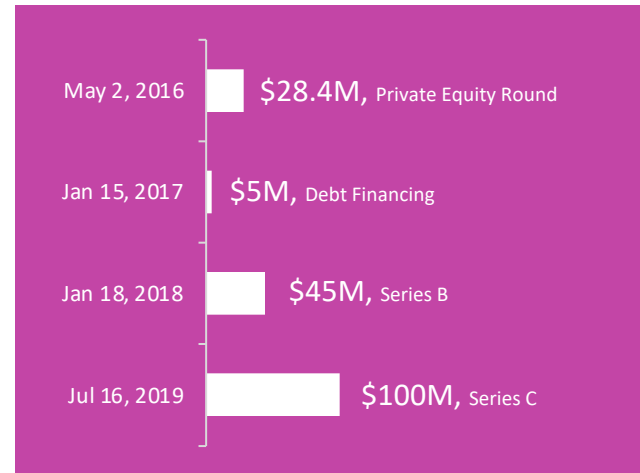
REVENUE MODEL

- Interest income
- Interest on loans

VALUATION

No official release

FUNDING HISTORICAL TRENDS



PARTNERSHIPS

- Bancorp Bank
- Temenos

COMPETITION

Affirm, Earnin, Monzo, Chime, and N26.

LICENSE

Full banking license

OPEN BANKING

Yes

GLOBAL EXPANSION (INTER EU, US, EMERGING COUNTRIES)

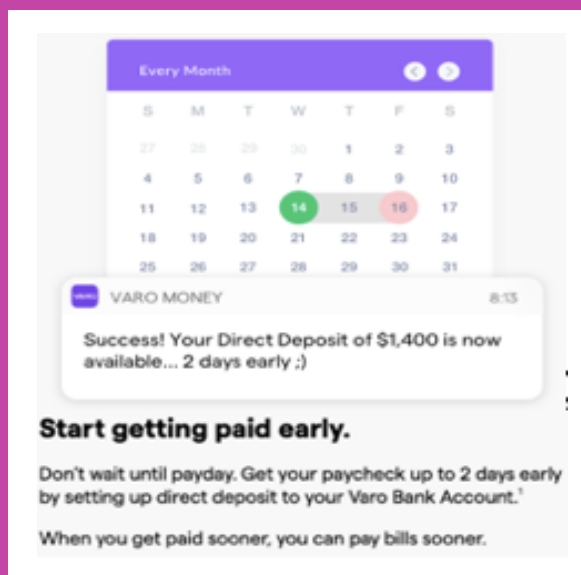
Operates only in the US

TOTAL USERS COUNT

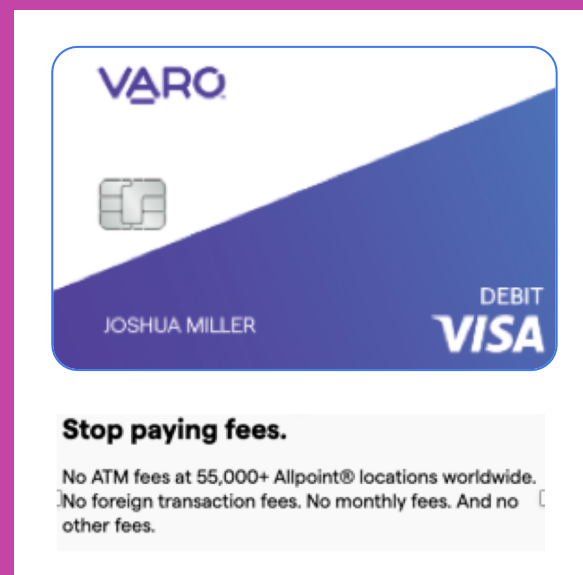
750,000 registered users

TRANSACTION VOLUME (DEPOSITS, ASSETS)

\$600 million in deposits as of July 2019



Access to deposits two days prior to payday



No fee ATM withdrawal from more than 55000+ ATMs

05. Bank- FinTech Partnerships.

Stages of Collaboration

As witnessed in 2018, banks have slowly (but steadily) been buying into the new paradigm of partnering with FinTechs in different ways.



Direct Investments

As a part of their digital transformation journey, banks and financial institutions have started to make direct investments in various FinTech startups over the recent years.

New technologies of startups are integrated into banks' applications and also in the form of "white label" arrangement.



Strategic Partnership Arrangements



Mergers & Acquisitions

Almost one in three banks and asset managers have plans to buy a FinTech firm in the next 12 months. E.g. Allianz is gradually moving from accelerator programs to acquisitions as part of its innovation strategy.

The Bank-FinTech Equation is Evolving

Investments/Partnerships/ Mergers & Acquisitions

Banks and FinTechs have had a tricky relationship over the years from competing for the same consumers, and at other times, leveraging each other's strengths. However, in recent times, the mutual acknowledgment of the need for the other has grown and become more evident.

Banks are going proactive in their approach to collaborating with FinTech. We have seen hundreds of bank-FinTech partnerships take place over the years via strategic investments, innovation programs, incubators, accelerators, as well as M&A activities.

Banks are looking to leverage FinTechs' superior technology and front-end capabilities. On the other hand, FinTechs are looking to leverage banks' vast customer base, infrastructure, and regulatory stronghold.

Moving towards an open architecture is the next logical step towards a sustainable growth that banks, insurers, and other FinServ incumbents are set to explore in the coming years.

APIs are the key enabler of this collaboration. Banks are now looking to revamp their core banking platform to enable plug-and-play services using FinTech APIs.

As a result, we have been witnessing a lot of open platforms being built across various segments of FinTech.

This is seen as a natural step forward to embrace the growing need for co-development, reusability, and agile/rapid application development requirements.

Banks are sitting on a pool of customer data, which is more valuable than ever in this age of big data, AI, and ML. Modern FinTech players, as well as incumbents, are looking to tap into that data and gain actionable insights. However, there are discussions to be had about who owns the customer data.

One of the main reasons Apple, for example, has managed to gather so much support from UK banks is that it agreed not to hold onto to customer data. With stronger data protection regulations such as GDPR in place, it will be interesting to see how this situation pans out in the coming years.

Collaboration is the key to the future.

Many banks have already realized that they need to act and are planning their future actions to partner or compete with startups.

The Bank-FinTech Equation is Evolving Investments/Partnerships/ Mergers & Acquisitions

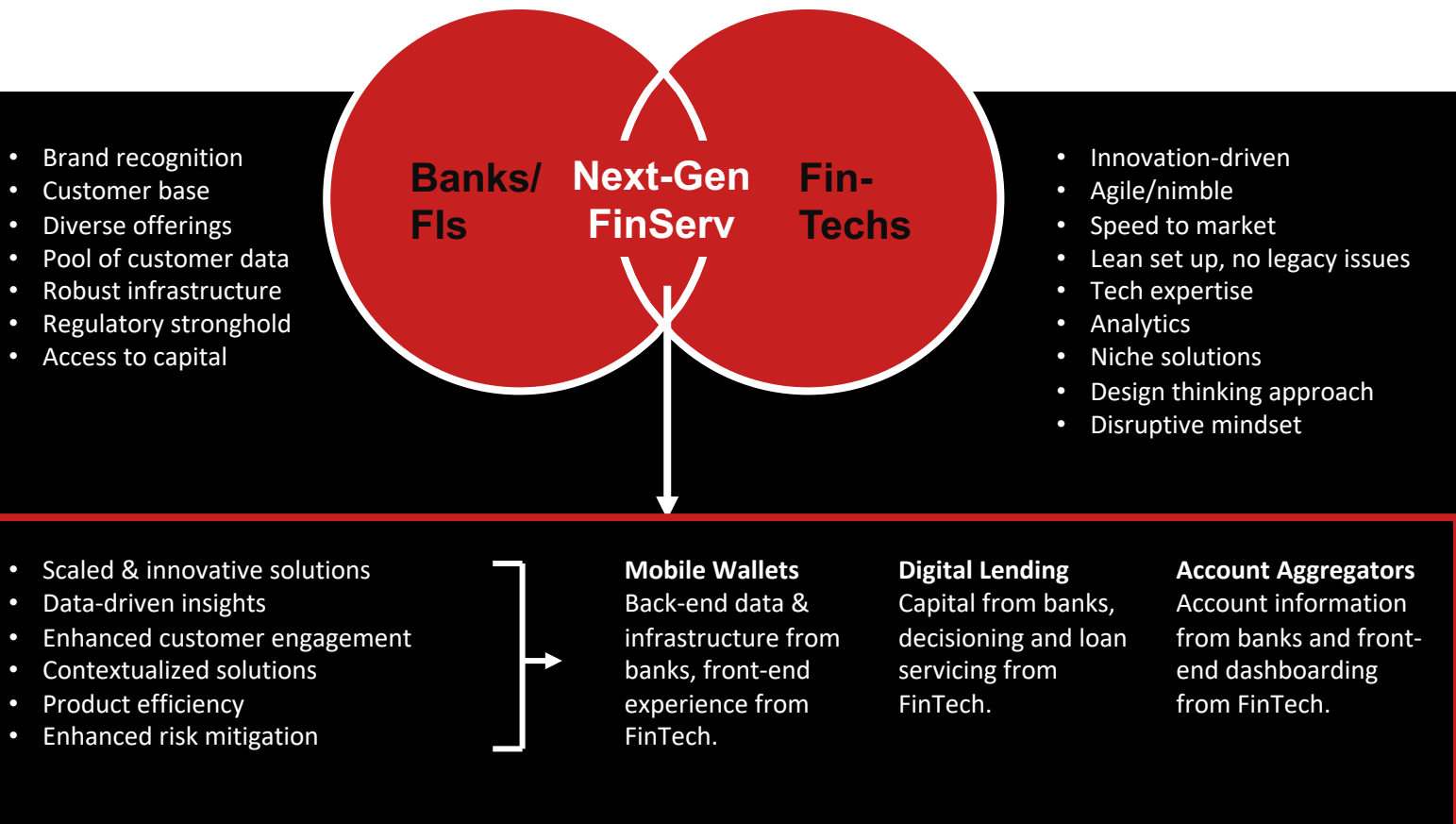
The FinTech wave begun with the objective of breaking banks and incumbents by disintermediating their service lines and adding an innovative tech-driven customer experience to deliver innovative offerings. While many FinTechs have established their unique capabilities as a stand-alone entity, the narrative has moved on from breaking banks to working with banks and is in line with working for banks in the coming years as FinTech players now see banks as a valued partner and a potential customer.

The above transition was powered by the fact that FinTech lags behind banks and incumbents when it comes to customer base, infrastructure & regulatory stronghold over their areas of business.

By 2016-17, most of the banks understood that it is not prudent to think of FinTech as competition. Banks and Incumbents now look at FinTech as an ally to collaborate and deliver next-generation offerings to their customers. This fact can be substantiated by the hundreds of bank-FinTech partnerships that are taking place in recent years.

Even while the above trend is taking shape, some banks and incumbent FIs are beginning to look at M&A. Allianz, the biggest insurer in the world, is swinging the pendulum very hard by going all-in for acquisitions and stopping all early-stage or accelerator-style programs. Some of these incumbents are following a hybrid strategy for some time by having an innovation department that tries to find out solutions to embed and jointly launch an investments arm to take a seat on the board and guide the direction of the company.

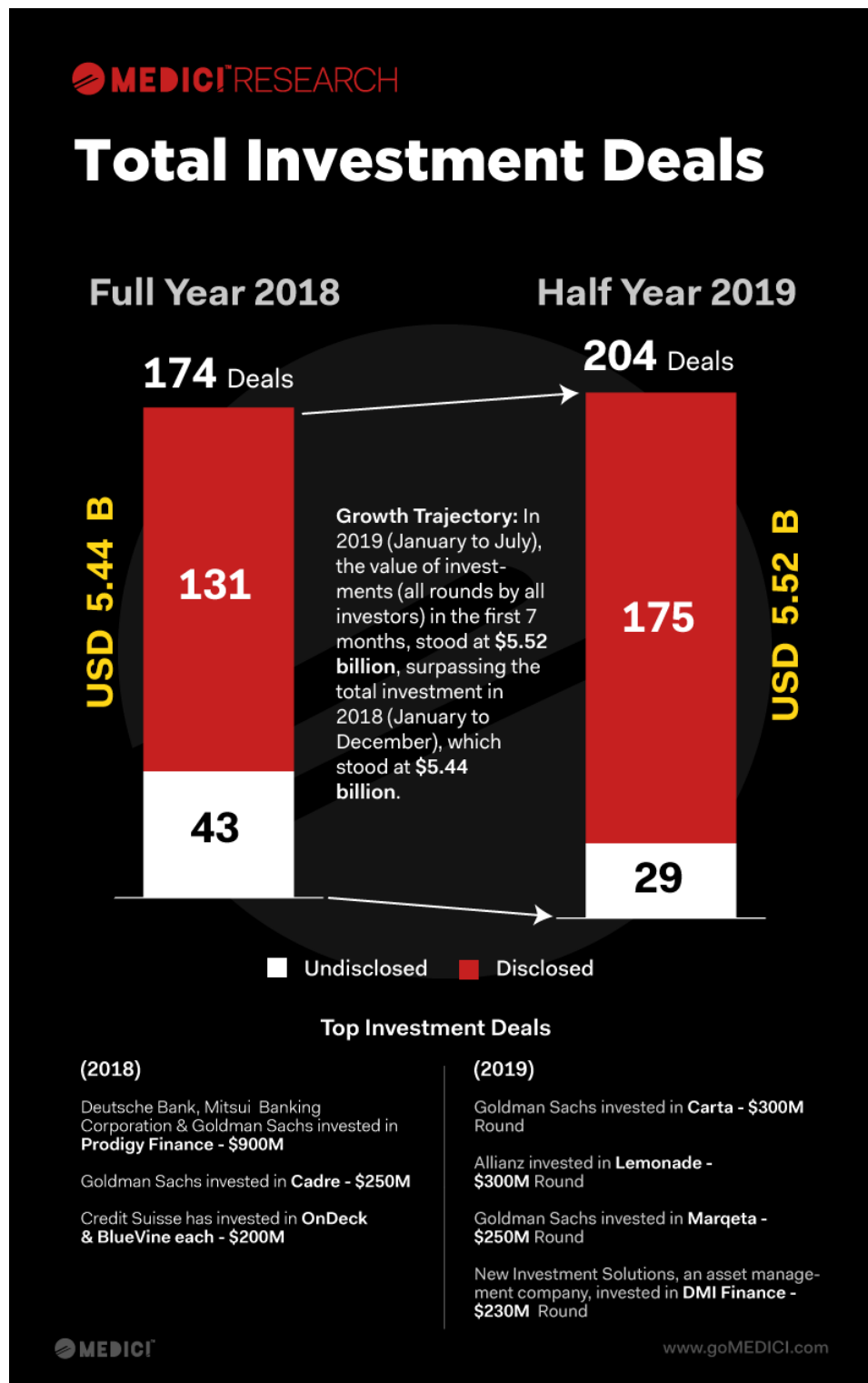
Thus, banks and FinTech coming together has given a new direction to the strategic expansion of the financial services ecosystem. In the coming years, we can expect the same trend to continue and take a concrete shape.



Bank-FinTech Investments

2018 vs. 2019

The total investments in the FinTech industry reached \$58 billion in value in 2018. Incumbents on both sides (banks and FinTechs) are working towards coming together to meet growing customer expectations and stay relevant in a technologically growing world (concerning banking). In 2018, 174 deals were made by FIs/banks in FinTech startups with \$5.44 billion being the total amount invested in those rounds). More than 74 banks, 10 insurance companies, and 2 asset management companies in 159 FinTechs.



- However, in the first half of 2019, the total value of investments deal was \$5.52 billion and handsomely surpassed the total funding value of the year 2018.
- There were 204 deals where 84 banks invested in 127 FinTechs, 46 insurance companies invested in 56 FinTechs/InsurTechs, and 31 asset management companies/ investment management companies invested in 40 FinTechs.
- A lot of capital has indeed come from incumbents' venture capital arms which include – but aren't necessarily limited to – Barclays Venture, Santander Innoventures, Allianz Life Ventures, ABN AMRO Digital Impact Fund, and CommerzVentures.
- Furthermore, to explore and utilize emerging technologies, older financial institutions are now organizing to innovate by developing labs to foster innovation, and actively partnering with FinTechs offering expertise in areas beyond their strengths.

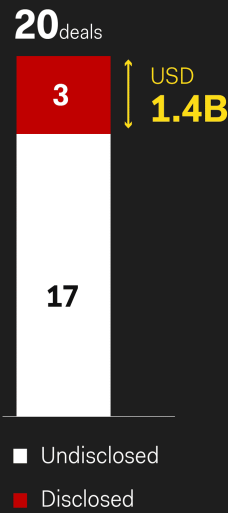
Bank-FinTech Mergers & Acquisitions

An Analysis of FY 2018

In recent years, the corporate development and M&A teams of banks and financial institutions have started to get into action. The outright benefit for banks/FIs is through acquisition is that they get exclusive rights to the technology which could give them a competitive edge, rapid expansion into new markets, and a new customer base. By finding the right mix of acquisition and investments, banks and incumbents are looking to up their FinTech game and come up with innovative solutions to address the evolving needs of their customers in this tech-first era of financial services.

MEDICI RESEARCH

Total Acquisition Deals January - November 2018



The top acquisition deal includes -

IRIS Software by Intermediate Capital Group for \$1.36B

Relayr by Munich Re for \$0.3B

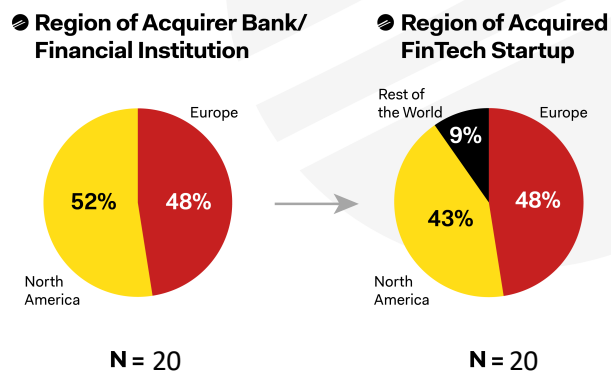
Freagent by Royal Bank of Scotland for \$0.06B

MEDICI RESEARCH

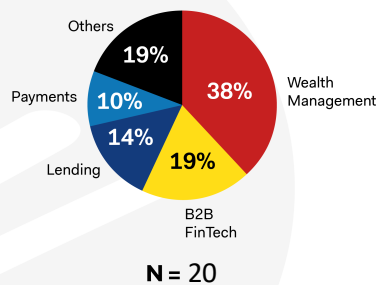
www.goMEDICI.com

MEDICI RESEARCH

Analysis of Banks/FIs - FinTech M&A



Breakdown of Acquired FinTech Startups by Segment



Note: Others include Blockchain, Bankingtech, Insurtech and Crowdfunding.

MEDICI RESEARCH

www.goMEDICI.com

In 2018, we witnessed a total of 20 M&A deals that amounted to a total of USD 1.4 billion.

Breakdown of M&A Deals:

- 10 banks have acquired 13 FinTechs.
- 2 asset management companies acquired 2 FinTech startups.
- 5 insurance companies have acquired 5 startups.
- Acquiring banks/FIs are all headquartered in North America (48%) and Europe (52%). There was no major player from Asia that made a FinTech acquisition.
- However, it's interesting to note here that while most players are established in NA and the EU, there is an interest in acquiring FinTechs from the rest of the world.
- While NA and EU FinTechs have been the target of acquisitions at 43% and 48% respectively, startups from Asia and other regions are emerging as the preferred destination for acquiring FinTechs.
- The total breakdown of acquisitions by segment indicates that 38% of all acquisitions have been made in wealth management, followed by B2B FinTech at 19%, lending at 14%, and payments at 10%.

Bank-FinTech Partnerships

An Analysis of FY 2018 [Illustrative]

ILLUSTRATIVE

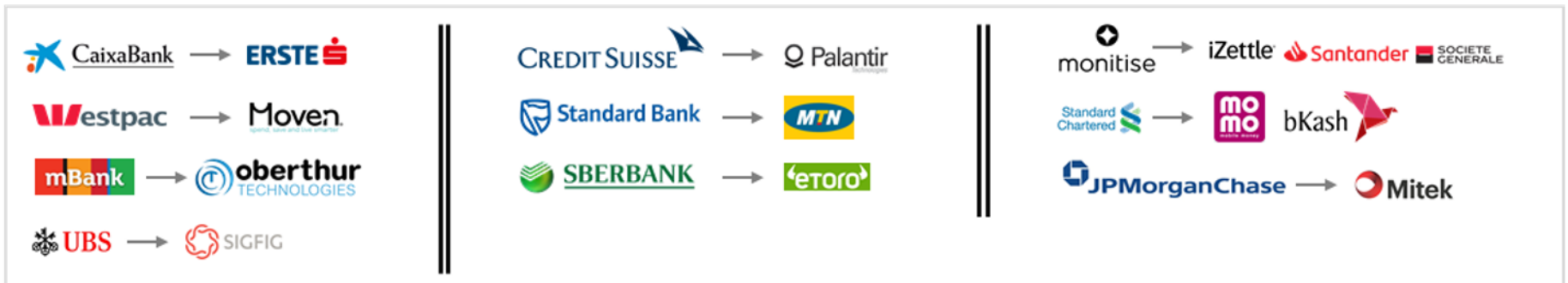
Non-exclusive Partnership



Exclusive Partnership



Joint Venture



Source: McKinsey Panorama

While there are numerous partnerships to choose from for understanding the trends related to bank-FinTech deals, here's a quick glimpse at a few interesting bank-FinTech partnerships in the US and Europe from 2018:

- **PNC & OnDeck:** PNC Financial Services Group's PNC Bank to leverage technology from digital lender OnDeck Capital for giving loans to small businesses online.
- **Citibank & Thinknum** Citigroup's partnership with Thinknum (a data startup) provides their clients with alternative data sets, including social media traffic, job postings, price, availability of products, etc.
- **Barclays & MarketInvoice:** Among the most significant partnerships announced in the UK last year. This multifaceted partnership was formed to enhance how SME businesses in the UK can manage cash flow and accelerate their growth.
- **JP Morgan & Plaid:** JPMorgan partnered with Plaid to provide its clients with better control over their personal data.
- **TD Bank with Flybits, Kasisto, and Moven:** TD Bank's mobile app has become the number one app in Canada (finance category) on both iOS and Android. The bank has leveraged its partnerships with Flybits, Kasisto, and Moven for creating a contemporary banking experience.
- **Goldman Sachs & Cadre:** These firms formed a strategic partnership to allow Goldman Sachs' clients to invest in a broad-based portfolio of US income-producing commercial real estate assets.
- **HSBC & Avant:** These companies have partnered to offer unsecured loans to new and existing customers in the US.

Bank-FinTech Partnerships in High-Growth Geographies

Like their European and American counterparts, traditional financial institutions are changing their mindsets and collaborating with mission-driven financial technology (FinTech) companies primarily with for a greater financial inclusion for all. The primary reason for the incumbents opting for the FinTech partnership route in the emerging economies is Financial Inclusion – a huge segment of the underserved population that the current banking landscape is not able to cater to. The key financial inclusion challenges in emerging markets that mainstream financial institutions are working to address through partnerships with FinTechs:

1. Gaining access to new market segments:

The partnerships with the new-age FinTech players enable these institutions to devise ways for reaching out and acquire new market segments, i.e., the underbanked segments of the population. Since setting up physical branches in remote areas for a target customer who would be opting for low-value accounts won't prove to be a feasible proposition for banks, one of the primary challenges for banks has been the onboarding of these lower-income customers via traditional means.

- AXA partnered with MicroEnsure for offering insurance products in the emerging markets.
- The partnership between Mastercard and Grindrod Bank and Net1 for providing services to the underserved population in South Africa.

2. Creating new offerings for existing customers

The second major challenge faced by financial institutions is developing innovative & profitable services for their existing customer base in the lower market segment. This plays as an obstacle to the steadier and regular revenue stream for financial institutions compared to the costs of acquiring new customers.

- ICICI Bank partnership with Stellar, a Silicon Valley-based non-profit offering distributed ledger infrastructure services, to build a blockchain-enabled payments network for their customers.
- Stanbic Bank collaborating with DreamOval to offer a mobile payments platform called Slydepay in Ghana.

3. Data collection, use, and management

Effectively collecting, using, and managing data for financial inclusion has been one of the major challenges faced by the financial institutions in this space. The main theme for forging partnerships with FinTechs is to leverage their expertise on creating alternative risk modelling techniques.

- BBVA Bancomer partnership with Destacame to provide financing solutions to New-to-credit customers in Latin America.

4. Deepening customer engagement and product usage

Another major challenge for the financial institutions that they are trying to address by partnering with the FinTechs is to develop a better and deep understanding of customer engagement and usage of products. The main theme for partnerships here is to leverage digital tools for enhanced customer engagements and touchpoints.

- BBVA Bancomer in Mexico and Bancolombia in Colombia separately partnered with Juntos to increase customer engagement and usage.
- PNB MetLife partnered with LumenLab and Imagine to improve the customer experience and provide better support for insurance policyholders in India.

is India.

How Indian Banks Are Leapfrogging Global Counterparts in Collaborating With FinTech [ILLUSTRATIVE]

Many banks have already realized that they need to act and are going proactive in their approach to collaborating with FinTech. The digital payment space has seen quite a few such collaborations via innovation programs, incubators, accelerators, as well as M&A activities. Large banks and NBFCs are looking to establish partnerships in order to expand their existing lending capabilities in the digital lending space. This creates a win-win scenario as banks are able to gain from FinTechs' tech capabilities, unique front-end, and millennial appeal. On the other hand, digital lenders get a referral/lead-generation channel and get an additional revenue stream as technology providers to incumbents (lending-as-a-service).

Payments

Since 2015, India has witnessed a total of 57 deals being forged between the banks and the Indian startups. Some of the banks that are leading this race are YES Bank, ICICI Bank, HDFC Bank, Axis Bank, etc. YES Bank has formed more than 20 partnerships with digital payment startups to leverage their superior technology and front-end technologies. ToneTag, Razorpay, MobiKwik, and Novopay are some of the startups that are leading as the most-preferred FinTech startups for partnerships by banks.



How Indian Banks Are Leapfrogging Global Counterparts in Collaborating With FinTech

[ILLUSTRATIVE]

One of the most successful banks in terms of FinTech partnership is RBL. RBL saw 100% growth in POS network in 2018. This has primarily been driven by partnerships with FinTech players. One such partnership is RBL and Mswipe, which enabled the bank to address the millions of merchants outside the regular banking system. Other partners include EKO, Novopay, Oxigen, MoneyOnMobile, Pine Labs, and Ezetap. RBL presents a good example of partnership vs. procurement approach in payments and partnership appears to be a winning strategy for RBL

Lending

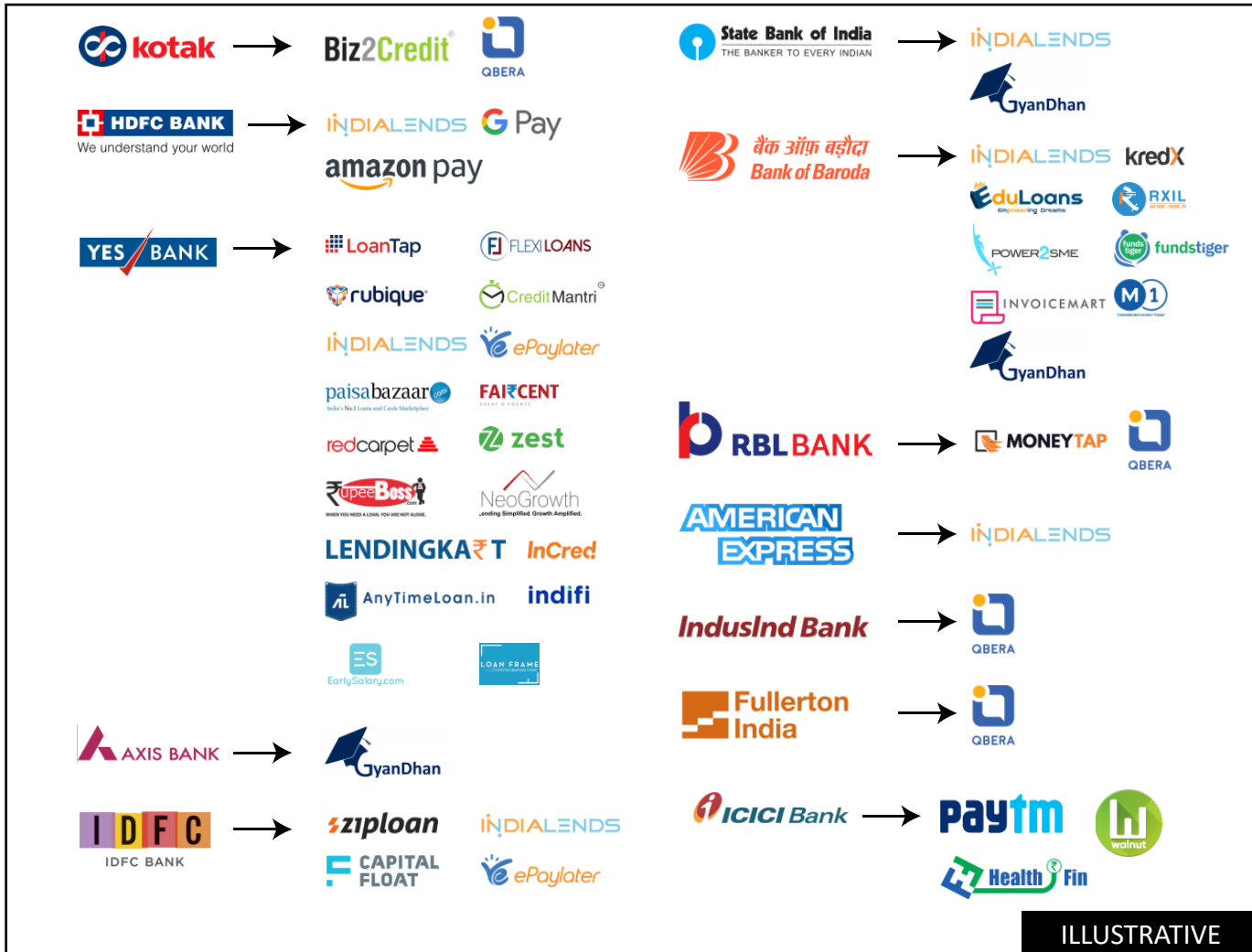
Since 2015, more than 48 partnerships have been forged between banks and digital lending startups. Banks who are at the forefront of these partnerships are YES Bank and Bank of Baroda with total deals of 19 and 12 respectively. Even a credit bureau like CRIF High Mark has partnered with CreditVidya to offer loans to thin-file and new-to-credit customers. With this partnership, CRIF intends to help NBFCs and banks to provide loans at reasonable rates to the underserved population, thereby enabling them to expand their loan coverage.



ILLUSTRATIVE

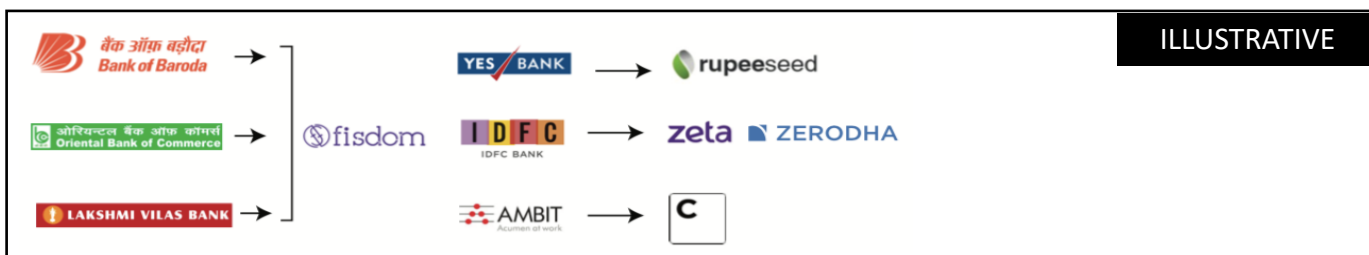
How Indian Banks Are Leapfrogging Global Counterparts in Collaborating With FinTech

[ILLUSTRATIVE]

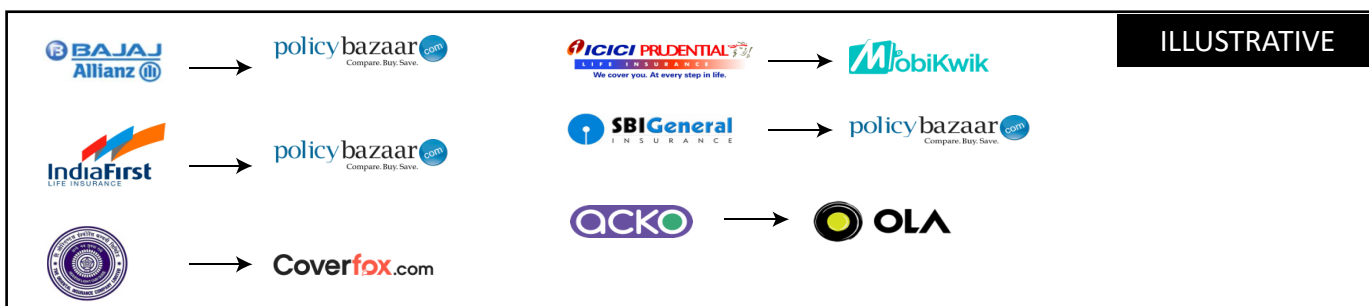


However, when compared to other segments, the collaboration story in other FinTech spaces like InsurTech and WealthTech is very nascent and hasn't seen many partnerships or investments.

WealthTech



InsurTech



06. Mutual Growth: Partnerships by Neobanks.

Mutual Growth

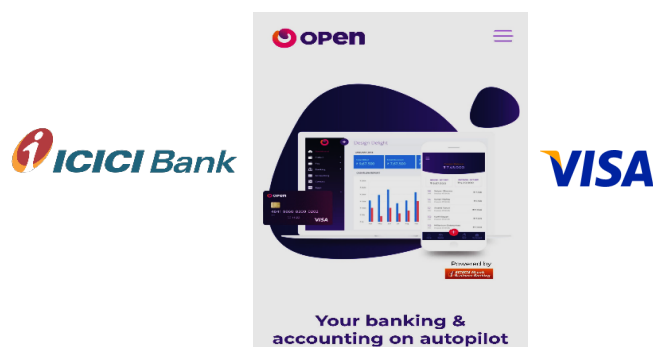
Exploring Partnerships

Globally, it's clear that neobanks are on an upward growth trajectory. As time goes by and neobanks pursue newer markets with a view to providing a superior experience for their customers, these players have increasingly been leveraging the power of partnerships with FinTechs. Why? Such partnerships help neobanks rapidly add to their existing catalog of services; this, in turn, helps them reduce costs and move towards breaking even. Some of the advantages of these partnerships include benefits like cheaper customer acquisition, increase speed to market with new services, and contain upfront infrastructure costs, to list a few.

Many FinTechs offer a host of banking services without any licenses – simply by partnering with an existing bank, which, of course, has all the requisite licenses. This model is already in use across the world: examples include Revolut and Simple, who outsource their banking responsibilities to banking partners already equipped with licenses. They partner with the banks, offering a holistic suite of comprehensive business banking or consumer banking solutions. This way, the end-customer avails of the banking services as offered by the FinTechs. However, from a regulatory perspective, the money involved is being managed by the banks the FinTechs have partnered with.

Banking Partners

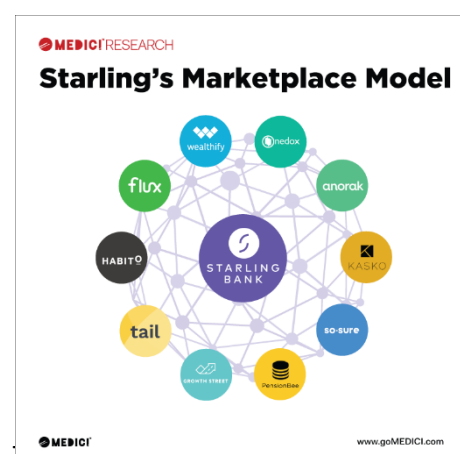
Not to be left behind, digital-only banks have also been working to establish partnerships with incumbents banks that they had initially set out to disrupt. They've been doing so, either to facilitate network speed, or take advantage of new Open Banking requirements, or, for that matter, for better information security. These banks seek partnerships with conventional incumbents with an aim to widen the breadth of service offerings for their customers. Through such partnerships, they can begin adding new products, such as alternative credit cards, mortgages, and even insurance. As a result, These players no longer need to wait for over a year or invest money to get a license, as they can leverage the incumbent bank's existing license to roll out their product offerings.



For instance, in 2018, Open announced its partnership with ICICI Bank. This partnership was aimed at helping businesses integrate banking functions into business tools to send invoices, collect & send payments, reconcile, and perform expense management – all from a single platform.

FinTech Partnerships

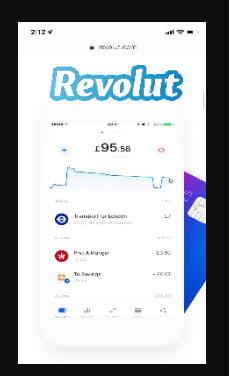
Getting a little more in-depth, one finds that neobanks have been forming FinTech partnerships with a view to establishing a service marketplace with banking operations at its core. These partnerships help them grow quicker, as APIs and enabled integrations are cheaper and faster with respect to launching products and acquiring customers. It's likely, given that the UK's Open Banking standards and the European Union's PSD2 protocol are now in effect, more challenger banks could seek to increase their partnerships with FinTechs. E.g., Starling has already been taking advantage of the new regulations. The company has been aggressively seeking partnerships with FinTechs and has launched an API marketplace in 2019, looking to team up with 25 FinTech startups.









The marketplace is not an app store for financial services, connecting providers to the Starling's customers. So far, the bank has forged partnerships with 11 FinTech players.






Neobanks Add FinTech/ Bank/Tech Partners to Grow [ILLUSTRATIVE]

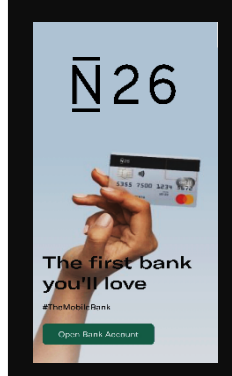
FinTech partnerships via APIs enable these players to roll out new products and services at much a cheaper & faster rate.






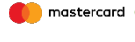
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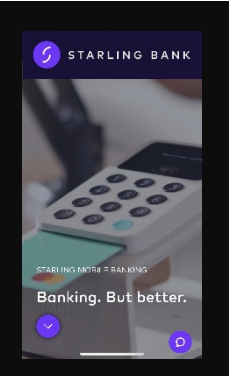


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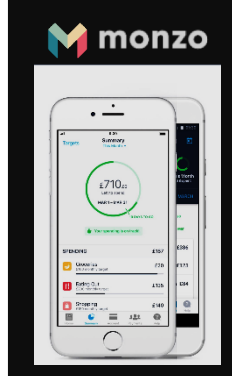


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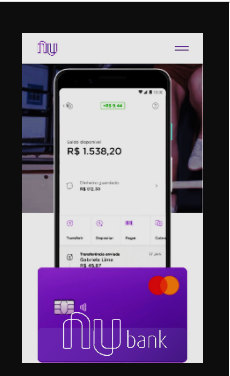


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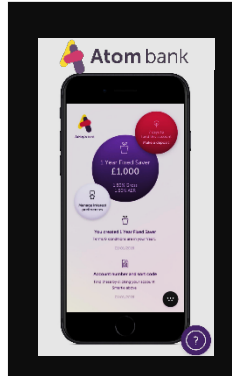




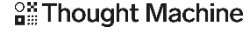






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PARTNERS




Viewpoint from a Neobank

With a view to gaining a deeper understanding of how these players leverage partnerships with banks or FinTechs to begin offering their products in the market, we conducted an interview with Anish Achuthan, Co-Founder and CEO of Open.

In 2017, Anish founded Open, which is considered by many as Asia's first neobanking platform for SMEs and startups. Open provides an easy-to-use solution, being used for collecting payments, performing payouts, reconciling transactions, auto-generating accounting reports, and engaging in expense management – all through a single platform. Open also provides developer-friendly APIs for SMEs and startups to integrate banking into their business workflows. In order to provide these services, Open has forged multiple partnerships, and thus, is well-equipped to provide insights on this particular topic.

1. Outlook on (a) API banking and (b) neobanking in India

As consumers and businesses continue to look forward to using tools to automate their finances, banks are increasingly partnering with FinTech startups and developers – a partnership in which the bank will act as a platform that integrates its core banking services with the experiences built by FinTechs.

We expect to see a rise in the number of neobanks and other financial service applications that want to ride this wave.

2. Current regulatory landscape for Neobanking in India

While there are no regulations which currently regulate neobanking, the RBI has always been supportive of API banking initiatives taken by banks. It has also recently announced the setting up of a regulatory sandbox which we believe is a positive step towards supporting this ecosystem.

3. License vs. Partnership: The best approach for neobanks to offer their services in India

As per existing regulations, banks are allowed to expose their APIs to FinTechs. This allows FinTechs to go ahead & actually find the right partner bank to work with.

Also, in the current regulatory environment, it is difficult for FinTech firms to secure a banking license. Given these state of matters, partnerships are the best approach.

4. Obstacles or challenges faced by neobanking in India

The biggest obstacles faced by neobanking in India are the lack of a supportive infrastructure and the challenge of building consumer trust.

Viewpoint from a Neobank

5. Tell us about your Partnership with ICICI and Visa and how these partnerships helped you to expand your service offerings.

Our partnership with the ICICI Bank enables ICICI Bank's current account holders to securely connect their bank account with the Open platform and undertake an array of digital transactions like invoicing, online payments, vendor payouts as well as accounting through a single platform. The integration also enables businesses to automatically reconcile banking and accounting entries to generate profit & loss statements, balance sheets, and expense reports, thereby offering MSMEs better insights into their financial transactions.

This also enables MSME customers to experience 'connected banking' which helps businesses to eliminate the need for manual data entry, automate banking functions like invoicing, payments and reconciliation on a single platform as well as facilitate payments to vendors/suppliers directly through the accounting platform.

On the other hand, Open's partnership with Visa allows Open to offer business card services for startups based on their funding history and not credit history. The card comes with a suite of expense management tools that will help businesses manage their expenses and payouts and can be issued to employees, set limits, and can be easily integrated with WhatsApp for expense filing.

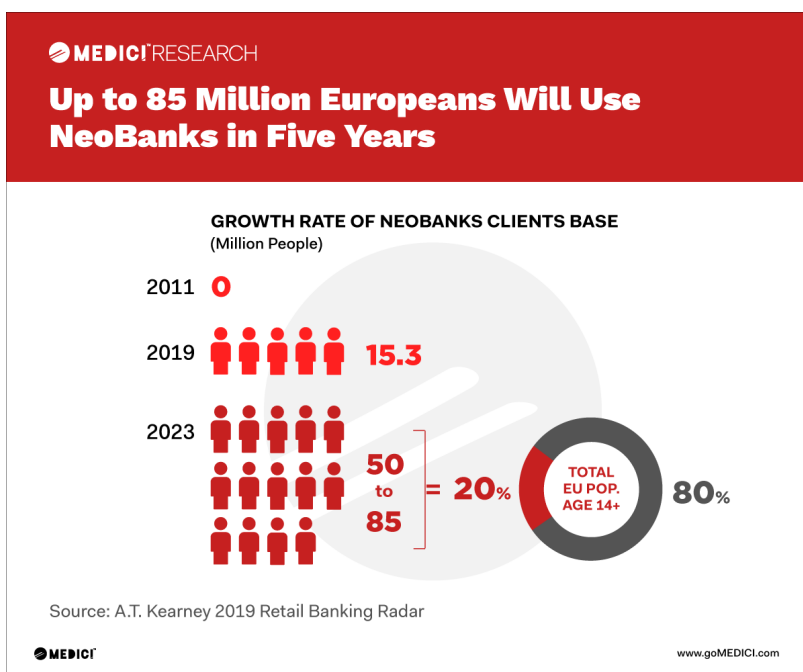
The credit card also comes with a reward program that lets startups earn points for their spend, which can then be redeemed for various software subscriptions, cloud hosting, and discounts on co-working spaces. The partnership with Visa will also enable Open to enhance its API banking suite called Layer through features like real-time payments settlement and refunds.

07. Conclusion.

Neobanking Growth by Geographies

New technologies are not only inflating the consumer expectations from their financial services providers but also reducing the barriers to entry for innovators. Regulators and policymakers across the globe are acknowledging this change as constructive development and responding with initiatives that will further the growth of new ways of banking. This will continue to support the growth of open and neobanking.

According to AT Kearney [research](#), European neobanks' customer base has grown by more than 15 million since 2011. On the other hand, retail banks' customer base has declined by 2 million. It is projected that by 2023, Europe's neobanks will win up to 85 million customers reaching over 20% of the population over the age of 14.



Europe has been the bright spot for neobanks for the best part of this decade. In comparison to Europe, the US seems to be lagging in the growth of neobanking. It is important to point out that the US is home of some of the oldest neobanks like Simple (founded in 2009) and Moven (founded in 2011) and some relatively new neobanks such as Chime, Varo, and Aspirations. However, neobanking has failed to attract US customers in the last 10 years, and **just 3%** of millennials have opened a primary checking account in a digital-only bank. JP Morgan's digital offering Finn failed as it could attract only 47,000 customers. Banks' digital-only offerings such as JP Morgan's Finn, Goldman Sachs' Marcus or Wells Fargo's Greenhouse have all failed to shake up the market. For neobanks to grow in the US, the strategy would be to combine 'Price + Digital' and offer easier financial management tools, better rewards programs, and unique user experience for millennials. While baby boomers would only care for better interest rates than their tradition bank accounts.

Analysts believe that the Open banking regime would be able to do only a little good in the US financial services market whereas the entry of some of the successful European neobanks can bring the next wave of disruption in the market.

European neobanking appears to be the only success story so far. That does not mean other geographies are not promising for neobanking players. There are a few interesting case studies in Latin America, such as Nubank which was recently valued at \$10 billion – it has achieved exponential growth in its numbers of customers. But the real growth is being unlocked in the APAC region where many countries are formulating their own virtual banking regimes. Hong Kong, Taiwan, and Singapore have already rolled out their virtual banking licensing while Thailand and Malaysia are expected to follow suit in the years to come.

Neobanking Growth by Geographies

APAC NEOBANKING GROWTH STORY

Hong Kong

On March 27, the HKMA granted the first three virtual banking licenses to Livi VB Ltd. (a joint venture between Bank of China (Hong Kong), JD Digits, and Jardines), SC Digital Solutions Ltd. (a joint venture between Standard Chartered, PCCW, HKT, and Ctrip) and ZhongAn Virtual Finance Ltd. (owned by ZA International). On April 10, it granted one more license to WeLab Digital Ltd. (a Hong Kong-based FinTech company). Earlier in May 2019, four new license were granted to Ant SME Services (Owned by Ant Financial), Infinium Ltd. (a joint venture owned by Tencent, the Industrial and Commercial Bank of China, Hong Kong Exchanges and Clearing, Hillhouse Capital, and others), Insight Fintech HK Ltd. (a joint venture owned by Xiaomi and AMTD Group) and Ping An OneConnect Company Ltd. (owned by PingAn).

It is important to note that most of the HKMA virtual bank licensees are backed by shareholders who are financial institutions themselves or tech giants with strong financial capabilities. This would give some peace of mind to HKMA in initial years of operations by these virtual banks, which is likely to be high-risk time. According to the business plans of these licensees, their services will be launched by the end of 2019.

HKMA has told the licensees also to focus on small- and medium-sized enterprises who lack a long track record and have had difficulty opening accounts at major traditional banks. Prior to this move, HKMA had earlier (in 2016) warned banks about the risk of excluding legitimate business from financial services. These traditional banks have been stepping up compliance efforts to meet mounting regulatory requirements.

Taiwan

In Jul 2019, Taiwan issued virtual banking licenses to three consortiums. One license was for LINE Financial Taiwan, led by Japanese app operator LINE Group that partnered with Taipei Fubon Commercial Bank and Standard Chartered. Second license to consortia Next Commercial Bank, led by telecom operator Chunghwa Telecom and includes Mega International Commercial Bank, Shin Kong Financial Holding, PX Mart, KGI Bank, and Trade Van Information Services. The third license was granted to Rakuten International Commercial Bank, which was operated by Japanese e-commerce firm Rakuten Inc and Taiwan's IBF Financial Holdings.

In the case of Taiwan, licensees' backgrounds involve partnerships between existing banks and technology and communications firms that possess mature digital platforms such as social networking apps, mobile telecommunications, and e-commerce platforms. Due to nature of their consortia, Next Bank may focus on SME lending and money management business, Line would go for online payments first, and Rakuten will attempt to benefit from the integration of e-commerce and finance.

Neobanking Growth by Geographies

Singapore

On June 28, 2019, as many of you might already know, the Monetary Authority of Singapore (MAS) announced that it would issue up to five new digital-only bank licenses. The move extends the eligibility for digital bank licenses to non-bank players as well. The five new licenses will comprise:

- Up to two digital full bank licenses: allowing the provision of a range of financial services and deposits to be taken from retail customers by licensees, and;
- Up to three digital wholesale bank licenses: allowing services to be provided to SMEs and other non-retail segments by licensees.

This move is a step towards establishing standalone digital banks, giving an opportunity to non-banks and tech players. Some of the established FinTech companies, ride-hailing startups, and telecom players are expected to apply for these licenses. If Singapore follows the Hong Kong/Taiwan-like approach, we can expect some consortiums and large technology; financial institutions' joint ventures will win the digital-only banking license in Singapore.

An estimate by Moody's investor service suggests that digital banks in Singapore can capture up to 2% of the country's \$24.3 billion worth domestic banking sector. The new virtual banks would hold the potential to shake up the market for underserved customers and use Singapore as a platform to target Southeast Asia's SMEs and over 250 million unbanked population. Like Hong Kong and Taiwan, these banks will be directed towards the SME sector first and would be slowly allowed to increase market share in the unbanked customer base.

Malaysia and Thailand

Regulators in Thailand and Malaysia are also considering digital banking licenses. In June 2019, Bank Negara Malaysia Governor, Datuk Nor Shamsiah, indicated that the country's virtual banking framework is 50% ready and over 10 parties have already expressed interest to set up the digital banks in the country.

India

The growth of neobanking in emerging markets like India is driven by the allure of the financial inclusion agenda. Around 200 million underbanked consumers, and \$240 billion SME credit gap, hold the potential to become breeding ground for open banks. YES Bank's NiYO, 811 by Kotak Mahindra Bank, and YONO by SBI are some of the digital-only offerings by Indian banks. Beyond these, the Indian markets' neobanking landscape comprise InstantPay's neobanking solutions for SMEs, Open's SME-focused solutions, and the recently launched SME-focused neobank EZOTO. Open, InstantPay, and EZOTO do not have banking licenses; they extend their products & service offering to clients in partnership with one or more banks. We expect that India will roll out its virtual banking licenses in the years to come to regulate this growing business model.

Conclusion

Clearly, Neobank Fever is spreading around the globe. This is evident from:

1. **Investments:** We have seen remarkable rounds of investments in the independent neobanks in the past few years. Most of these investments were boosted by unicorn funding rounds like OakNorth, Nubank, Judo Bank, Revolut, Monzo, & N26.
2. **Players:** There has been a significant rise in neobank players over the years. Even though startup activity in this space started around 2004, but they gathered pace after 2011. Around 50% of the startups were founded in 2016 and 2017, which is a clear indication of how these players have been disrupting the traditional banking space.
3. **Customers Growth:** It is projected that by 2023, Europe's neobanks will win up to 85 million customers reaching over 20% of the population over the age of 14. Similar predictions can be made for markets like the US, Singapore, Australia, India, and Brazil, which could be proven to be the next battleground for neobanks.

“

Banking is necessary,
banks are not.

– Bill Gates



Neobank Fever is spreading around the globe. This can be inferred primarily from the growth that we have witnessed in this segment in terms of increase in investments, number of players and customer growth.

The growth story of Neobanking is not fiction, which is evident if we look at the success stories and value addition by neobanking players in many underserved customer segments:

SMEs: Neobanks seem to be the right fit in addition to being capable of solving financing problems for SMEs. Neobanks provide a wide range of services from ground-up capabilities around accounting/tax/payments, etc., to API-driven marketplaces. These services enable SMEs to integrate plug-and-play solutions of their choice that were earlier available to larger institutions with a deeper pocket. SME-focused neobanks have started to make an impact. Upcoming neobanks in Asia Pacific are inclined towards the SME segment, and we can expect more neobanks beginning to provide tailored banking services to this segment in the years to come.

New-to-Credit Customers: Thin-file or new-to-credit customers are largely ignored by traditional banks. On the other hand, these thin-files are considered as 'opportunity files' by neobanks.

Conclusion

Gig Economy: The global gig economy market stands at \$248 billion (gross volume) with a projected growth of 17.4% during through 2023. Today's gig economy workers are looking for solutions that support an increasingly flexible work pattern that includes the unpredictability of deposits in their accounts. Unlike the brick-and-mortar establishments set up by traditional banks, neobanks are better placed to leverage this knowledge to design solutions that can cater to this customer segment. They endeavor to integrate all of these components and seamlessly offer customers the chance for self-service, education, advice, transactions, and more, through a simple app. Current trends indicate an uptick in the number of such players providing services of value to the fast-growing gig economy across the world.

Millennials: Neobanks/digital banks have indeed made an impact in the consumer banking space with their great UI/UX and agile approach to banking. Trends suggest that millennials are looking for lifestyle experience from their banks that involves unique credit/debit cards, investment solutions, and app-based banking that gets things done in four clicks. Neobanks are better placed to meet the expectations of this customer segment, and it is evident is unprecedented customer growth stories of many European banks. We can expect this trend to continue, and new-to-banking customers are bound to be attracted towards neobanks across the world.

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About MEDICI

MEDICI is the world's leading FinTech Research and Innovation Platform. As a premiere destination for FinTech insights, MEDICI has over 13,000 FinTechs on the platform, which enables FinTechs to scale and create global economic impact. By partnering with banks, various technology companies, and FIs globally, MEDICI is committed to supporting the complex financial services ecosystem and enabling stakeholders benefit from the industry's accelerated growth and global impact.

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