

Ins and Outs of Digital Banks

Success and failure lessons of independent and Incumbent-led Challenger Banks.

A Comparative analysis of market strategies looking at 80 Digital Banks globally



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EMPOWERING STRATEGY

FinTech Strategy deep-dive and benchmarking collection

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- Our teams are compiling research on a number of successful FinTechs and markets, taking deep dives into their company history, culture, success, competition and outlook.
- By placing FinTechs under the magnifying glass, we offer a better understanding of the factors that enabled them to become challengers in the financial services industry, as a guide for actors seeking to reach similar exponential growth.
- These reports aim at providing actionable insights and benchmarking to those interested in the financial technology industry, and more specifically, to businesses and entrepreneurs seeking to improve their strategies and increase their competitiveness.

Stay tuned for more!

Sector Deep-dive # 1:

Ins and Outs of Digital Banks

by



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Executive Summary

The pandemic accelerated longstanding consumer trends in Banking. The new world intensified the challenges banks were already facing and Speeding up the race for innovation and scale among key market players.

Neo-banks have demonstrated that simple products built on new technology platforms with a **digital-only approach can operate at a fraction of the marginal and unit cost** of the incumbent banks. Making Digital Banking to become a truly global phenomenon.

Digital Challenger Banks' go-to-market strategy is primarily driven by the maturity level of their market and entity type: start-ups or incumbent-backed. Consequently, they have different product strategies, launching with either a transactional product or a full suite offering, including lending. Start-Ups prioritize valuation over profit in the early stages, while corporate-baked players prioritize profitability from day one.

Banking in
the New
Decade

The rise of
Digital and
Open
Banking

The Go-to-
Market
Strategy

Success
and failures
lessons

The ongoing rise of open banking dissolves Banks Monopoly on consumer Financial data, bringing flexibility and creating a more competitive environment for digital banks.

While funding and number of unicorns for Digital Banking tech accelerated during 2021, **only 13 Challenger Banks globally are currently profitable.** The pandemic is adding a significant negative impact on profitability and digital banks were already fronting a profit gap compared to incumbents.

Successful start-ups launched their products through partnerships rather than through an immediate bank license, focusing to rapidly scale before expanding their offering. Meanwhile, Incumbents have the Digital Bank initiative at the forefront of their strategy with a long-term investment commitment.

Digital banking **failures in start-ups are linked to high reliance on funding** making it highly susceptible to market shocks. Their free or low-cost accounts are also a big hit to their balance sheets. While **Incumbent led players fail by lack of establishing a clear USP** (unique selling point) to differentiate itself from the digital-only banks.

“In the new world, it is not the big fish that eats the small fish, it is the fast fish that eats the slow fish.”

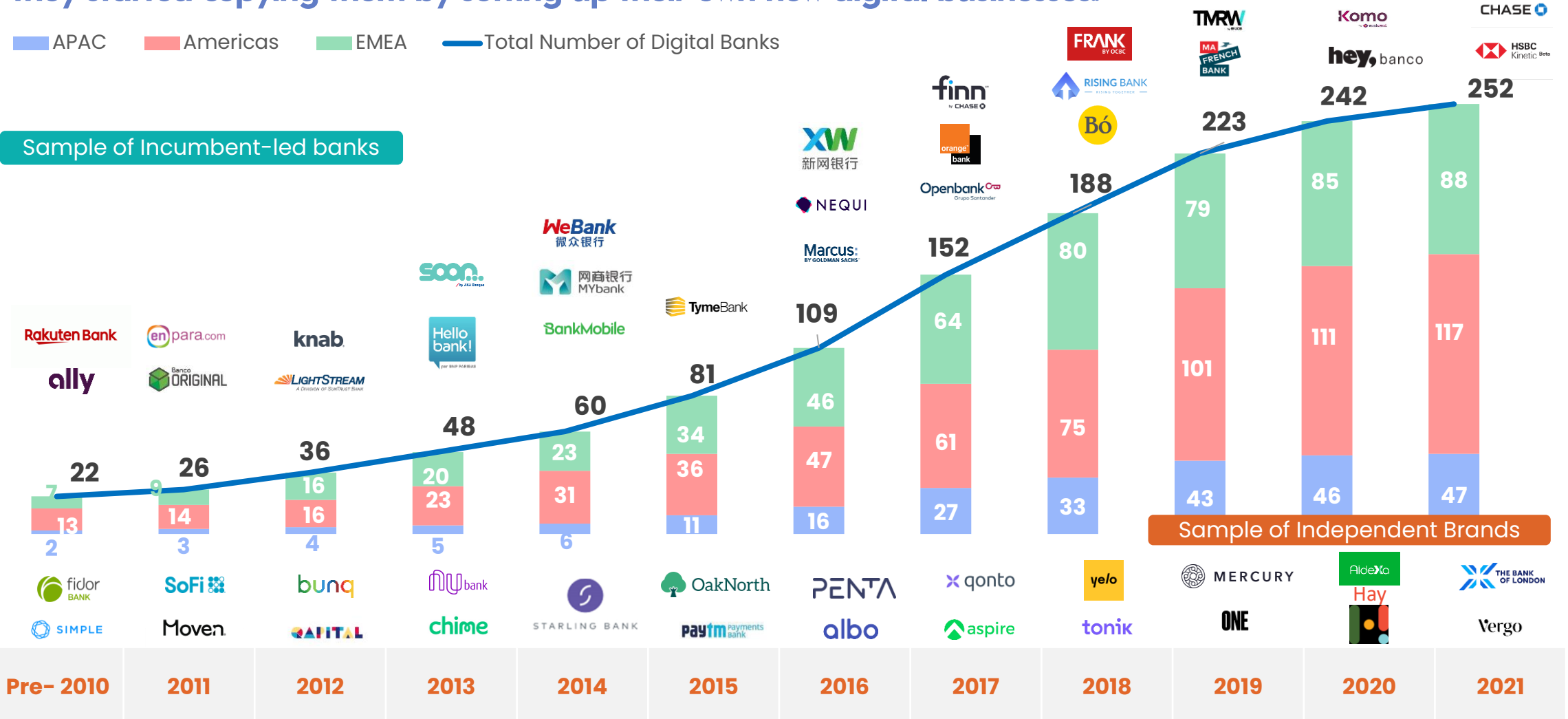
Klaus Schwab

Founder and Executive Chairman of the World Economic Forum

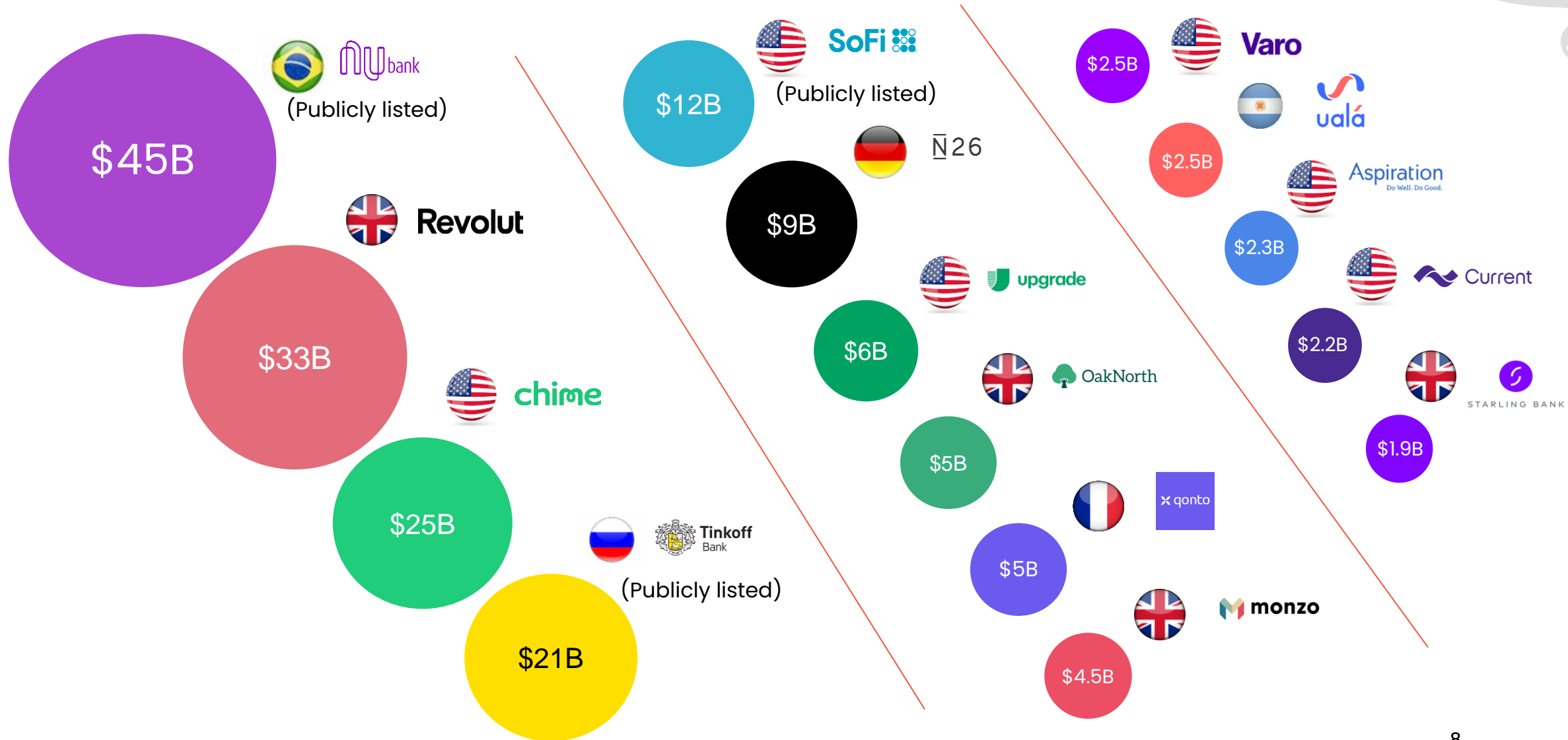
Speeding up the race for innovation and scale among key market players



The increased number of Digital Brands can be seen all over the world as they reached significant popularity from 2015 onwards. Incumbent banks initially ignored new entrants, then they started copying them by setting up their own new digital businesses.



They have reached skyrocket valuations - Highest Valued Independent Digital Banks in 2022



Arguably, there are many ways to measure success for Digital Banks.

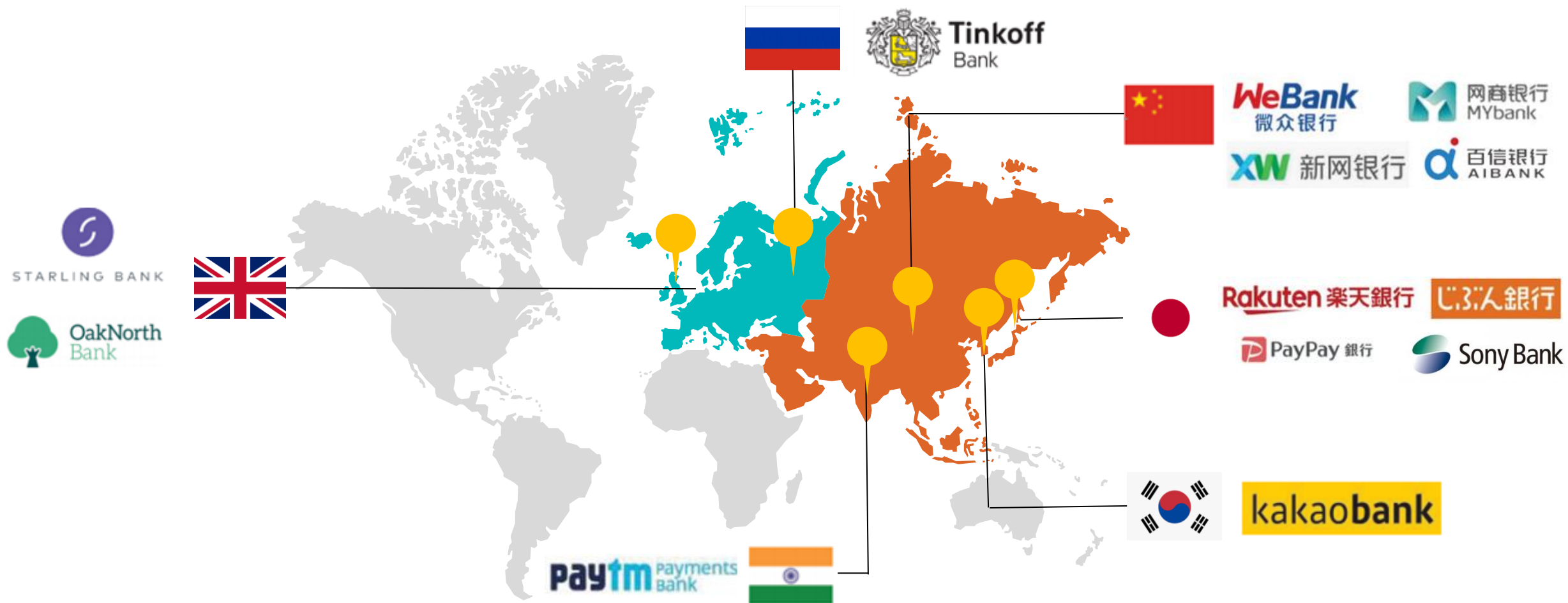
Profitability is the obvious one, however, for independent challengers there are additional elements that could show the potential and appeal of the start-up, such as the number of customers, their current valuation and its ability to raise funding. A mix of these factors will determine the interest investors show to the business model.



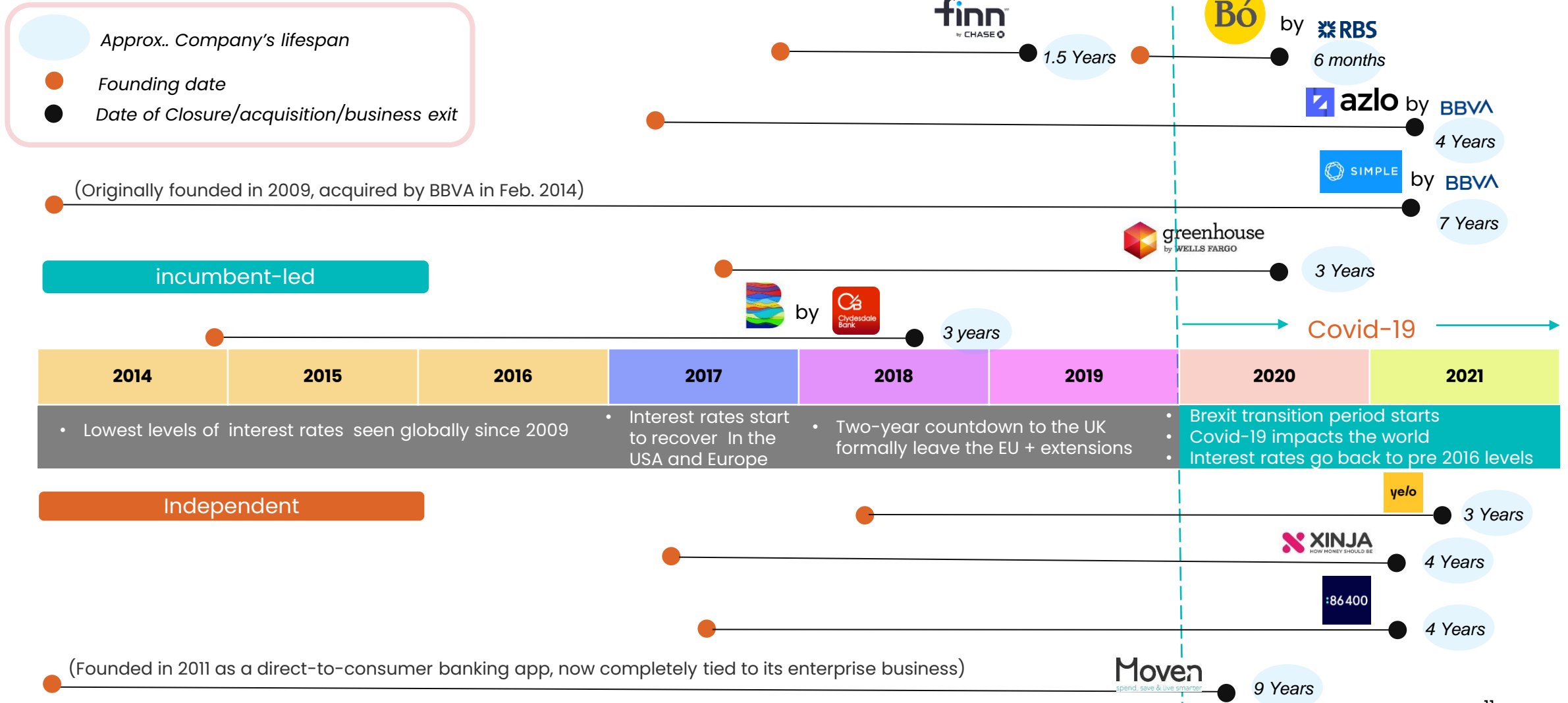
Note: Selected examples for illustration purposes, non an exhaustive list.

However, from those Challenger Banks only 13 are profitable

Notably, many of these players are Corporate-backed firms and come mainly from China and Japan. There are two European FinTech Banks; Oak North and Starling bank.



While few incumbent-led Challenger banks have quit before Covid-19, the impact of the pandemic on Digital Banks is visible.



The set-up of Digital Challenger Banks launched by start-ups differs significantly from brands backed by corporates.



Independent Digital Banks

(Launched as Neo-banks or FinTech Banks)

- Young and bold company.
- Build brand and customer base from scratch.
- Usually starts by offering a single product. i.e. savings or lending.
- Free proposition to quickly gain scale and market share.
- Prioritize valuation over profit in the early stages.

qonto

ny bank

Revolut

aspire



Digital Banks Backed by Corporates

(Financial or non-financial brands)

- Inherits/leverage traditional brand.
- Strong brand recognition and large customer base.
- Targets new segments or new geographies.
- A full suite of products offering.
- Focus on high margin products to monetize customer base.
- Prioritize profitability from the start.

WeBank
微众银行

Marcus:
BY GOLDMAN SACHS™

Openbank
Grupo Santander

Sony Bank

Go-to-Market Strategy | Four Key Elements



Value
Proposition



Target
Segments



User
acquisition



Product
Strategy

Case Study

chime



Case Study

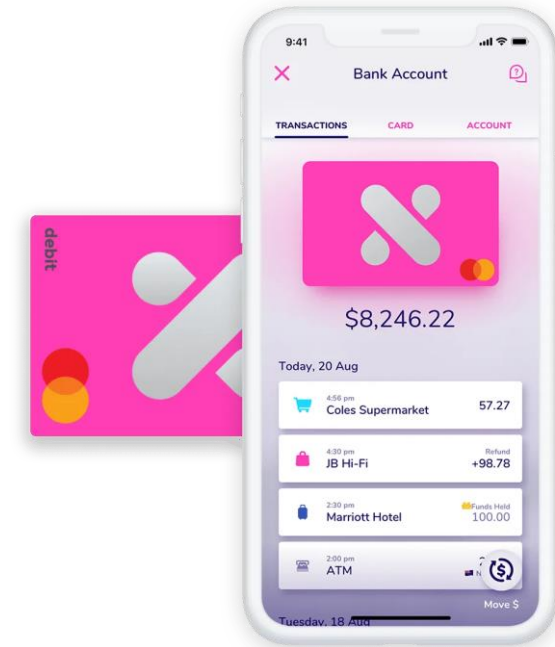
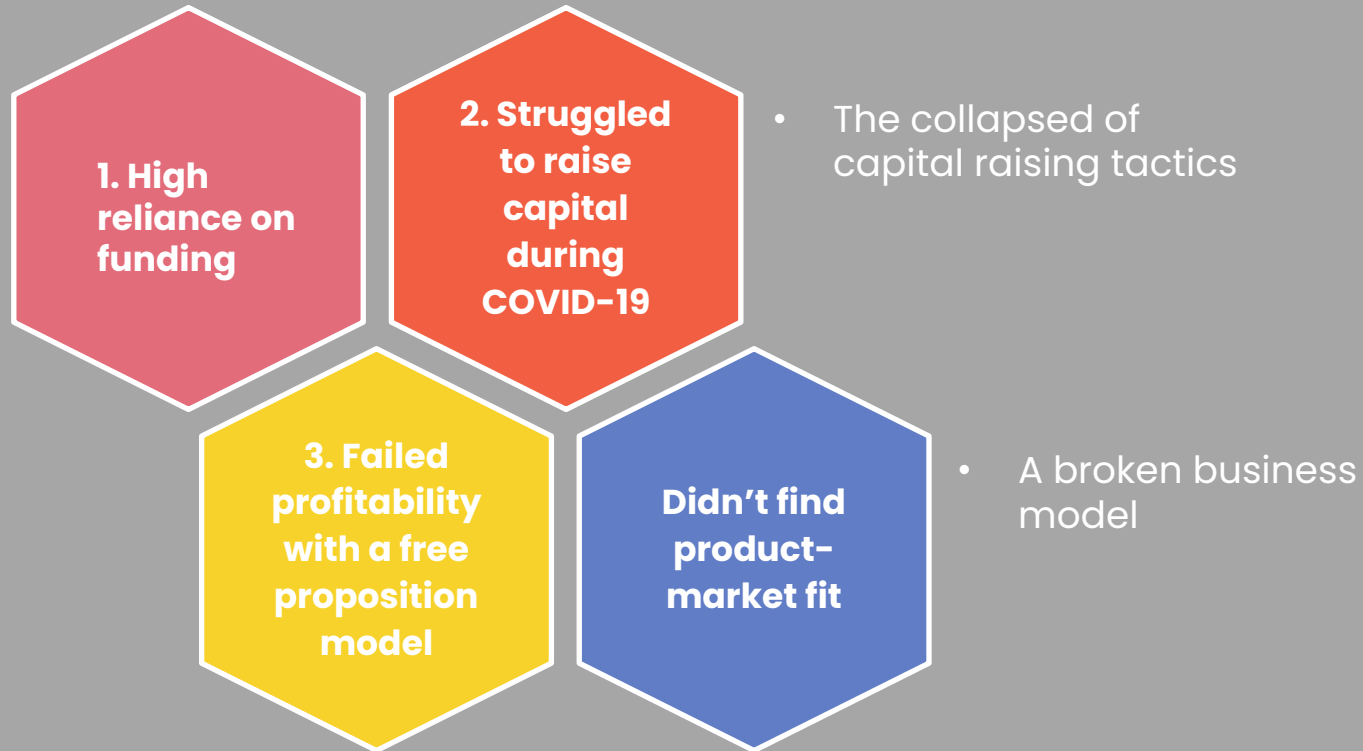
Marcus
by Goldman Sachs™

New!

You Can Money®
with our app



Why, some of the independent challenger banks have quit.



“They made very bad decisions about the way money was spent while not a lot was delivered”

Former Xinja employee

“If you are afraid to fail, then you should go and become a banker.”

Yossi Vardi

Israeli entrepreneur and investor.

The research team



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in Isabel Richardson

Isabel is a recently graduated economics student from the University of Queensland, Australia. She has split her studies between Australia and France, where she also attended Sciences Po in Paris. She has a personal interest in sustainable investment as well as regulations in the finance industry.



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in Tessa Ponce de Leon

Tessa is in her third year of undergraduate degree, which she studies in France. Her degree links Business Administration, Economics, International Relations and Brand Management. She is currently in Vienna where she is doing an exchange program, further highlighting her international background.



Leading Consultant

in Javier Guevara Torres

Javier is co-founder and CEO of C-Innovation. Having worked with both technology companies and corporates such as HSBC and Santander, he has a unique view of the challenges from both sides of the table.

Appendix

This research has been built taking into consideration analysis of 80 global banking players across 7 geographies including Australia, China (Taiwan and HK), Europe, India, Latin America, Asia-Pacific and the US.

Australia	China	Europe	India	Latin America	Asia-Pacific (Excluding China)	US
Ubank	Bank CCB Mobile	Bo	Yono	Nequi	Digibank	Marcus
Easy Street	ICBC Mobile	Hello Bank	811	Mach	UOB Mighty	Finn
Up	Payment	Openbank	Fino Payments Bank	Banco Original	Singapore	Azlo
RaboDirect	Pig An Bank	B	Jio Payments Bank	Next	Frank	BankMobile
West One	Richart	BBVA	Yes Bank	Rebanking	TMRW	Rising Bank
Volt Bank	aiBank	Quonto	Niyo	Albo	Funding Societies	Varo Money
Xinja	WeBank	Bnext	Open	Uala	Tonik	Moven
86400	MyBank	Revolut	Paytm Bank	Nubank	TenX	Chime
Judo	Neat	Bunq	Payzello	Zinobe	Arival	Current
Hay	Ant Bank	N26	येLo (YeLo)	Banco Inter SA	Aspire	Simple
	XWBank	Tinkoff			YouTrip	Upgrade
		Starling Bank			KakaoBank	Sofi
		Monzo			Sony Bank	
		Oaknorth				

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