Fintech 2.0

Banking

1

Chime (reluctant winner)

US neobank targeting millennials with income < $100k. Adding 500k “accounts” per month but not necessarily users.
Offers paycheck two days early and small loans of up to $100, provided steady income (primitive credit checking).
Value add for hand-to-mouth customers susceptible to overdraft and monthly fees from traditional banks.

The good

5m+ accounts
Successfully leverages Bancorp banking license
Successfully operates without physical branches (efficient)
Cult-like following (source: my peer group)
They have started lending in form of overdraft

The bad

5m- customers
Low customer affluence
Low projected future customer affluence
Reliant on interchange fees (regulatory risk)
They lend only $100 at a time

The verdict

Chime has customers but they are broke. While broke, they may be sticky (high interest savings will help). They are a shining example of a digital bank partnering with a brick-mortar bank, skipping regulatory fees. If they are careful they can expand their lending, the most profitable thing a bank can do (even with broke customers).

Synergy proposition: Chime joins (buy/merge/sell) carcass bank whose only asset is steady, mass affluent customers. Revolut in particular should buy Chime. Chime should buy Varo bank who is fast on its heels.

N26

German neobank targeting mainly urban millennials. Has a strong customer growth of 600% in 2 years.

Offers fully digital and user-friendly banking that includes current accounts, credit and debit cards, deposit guarantee, direct debits and standing orders next to free currency exchange

Value add for young, digital savvy customers through integration partnerships with Wework, Lime, Zalando, Uber, etc.

The good

Very strong customer growth

5mn+ clients (01.2020)

High monetization potential due to integration partnerships

Concentration through marketing and branding

Regularly adding new features to the offering: insurance and deposits

Sequentially entering new markets: US and Brazil

Backed by Peter Thiel

The bad

Strong focus on customer acquisition, therefore still loss-making

N26 needs to have active clients (only 30% use it as their primary bank)

70% still have a free account

Dependent on software providers

Risk of money laundering and cyber attacks is higher than for traditional banks

The verdict

N26 has a strong customer growth but most customers still use the bank as their secondary bank or only have free accounts. The company has been criticised a lot in the past due to its management and had to deal with multiple technical errors.

The company should expand to other products and services to maintains its competitive advantage. In addition, it is also advisable for the company to acquire and/or invest in related software to prevent technical issues and to "lock-in" customers.

Source: Confidential, Autonomous Research, Bloomberg

Revolut (winner)

Checking, savings, investings (stocks, crypto, gold), acquiring, transfer, interbank FX rates, primitive insurance.

They have recently expanded to the US making them one of the few Europe ⇔ USA neobanks.

Founders are Nikolay Storonsky (former Lehman Brothers) and Vlad Yatsenko (former software developer at Credit Suisse)

The just applied for UK banking license (Jan. 2021) (Bloomberg)

13mn clients, 1000-1500 employees ~1B funding

Offer USD savings with high interest rates for UK customers (novelty)

The good

Strong customer base

Technological capabilities

Similar to Ant but in Europe

The bad

Bad press indicative of possible bad culture

Spread too thin (if this is possible)

Nontransparent fees which people (millennials) hate

Risk of money laundering and cyber attacks is higher than for traditional banks

The verdict

Synergy potential: Revolut is in position to start gobbling up competitors given sufficient capital. Bundling of strong customer base and technological capabilities to leverage synergies, infrastructure already sophisticated (enough) to expand to new market and product segments

Cash App

American neobank targeting underbanked customers who currently pay substantial fees for financial services like cashing a check or sending money

Strong customer growth of 300% in 2 years.

Offers money transfer, cash withdrawals with debit Visa card, investing and bitcoin trading. Also it advertises to provide paychecks, tax returns and other direct deposits up to two days earlier.

The good

Strong customer growth from 7mn in 2018 to 30mn in 2020 (approx. 300%)

Benefits from network effects

Instant deposit

Virality

The bad

Easily replicable business model

Relies on bitcoin trading to drive engagement

The verdict

Bitcoin drives engagement, instant deposit drives revenue

Synergy Potential: Unlikely due to fact they are owned by Square who is a behemoth and already public.

Source: Confidential

Solarisbank

German Whitelabel bank

It provides a banking platform which allows its users, mostly digital companies and financial services startups, to access various banking service modules, which then can be integrated into their processes, websites or mobile applications.

Large partners: OTTO Group. Amex Germany, Vivid Money and BP

Clients run over 500,000 accounts on its API and it's adding 50,000 new accounts a month -> run each at <€10 p.a.

The good

A very large TAM (any potential neobank)

Currently in not well established (yet) but growing, developing niche

Less competition and clients are sticky

Strong contract and partner growth (23% and 39% respectively)

Biggest sign-up was Samsung pay in the German market in cooperation with Visa (20mn devices in GER, SB receives share of 0.2% interchange fee)

Increased flexibility due to combination of full banking license with API-based infrastructure

The bad

Core banking system is from external provider Pass Consulting

Open banking/PSD2 is a threat and they should adapt

The verdict

Synergy Potential: Consolidate with Mambu then attempt to dominate the whitelabeling market. Leverage the advantages of scaling - increase number of transaction while keeping costs constant

Tomorrow.one (loser or clothing company?)

Tomorrow.one is *the* eco-friendly bank of Germany.

A supreme example of what's possible with SolarisBank

B-Corp certification (Ben and Jerry's, Patagonia, Lemonade, the "good guys")

The good

A very large TAM (any potential neobank)

Currently in not well established (yet) but growing, developing niche

Issues wooden cards

The bad

Financial ethos

Does not have a BaFIn license

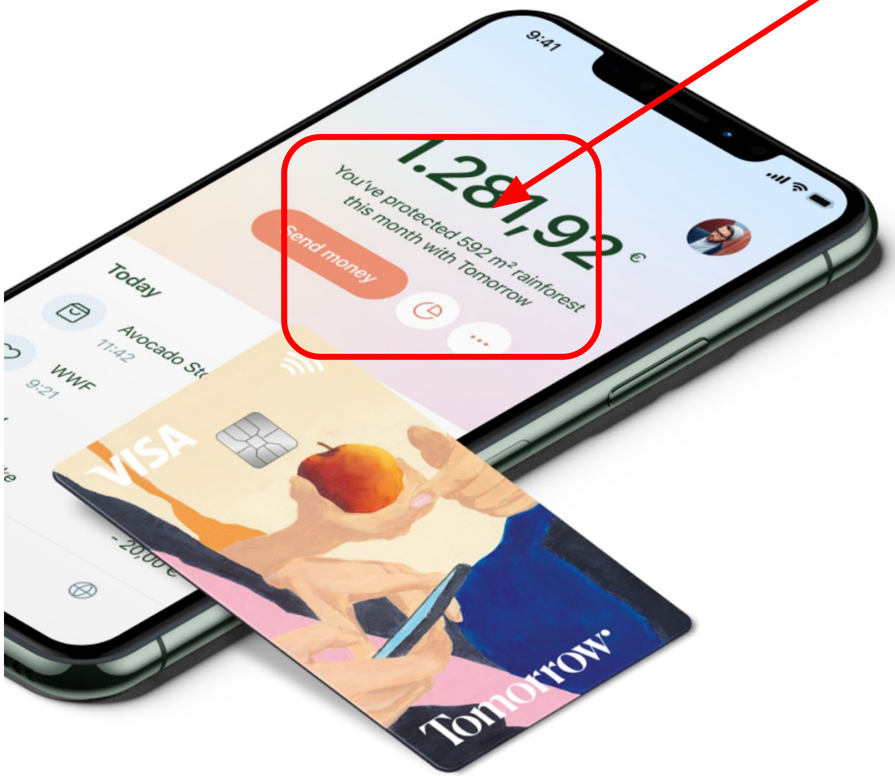
Premium account of 15€/month relatively high

Issues wooden cards

The verdict

Synergy Potential: Tomorrow.one is an exercise in greenwashed marketing. But it just might work. If millennial Europeans truly love climate-centric products like this (source: Nathalie) it would be a great asset for a bank who has customers but a bad reputation (dare I suggest another Landesbank?).

“Save the rainforests by letting us collect interest on your cash”



Use your smartphone to open a Tomorrow current account in only 8 minutes. All you need is your phone, address and ID to start protecting the rainforest with every euro you spend.

Open Bank Account

Mambu

Whitelabeler offering a core banking system. In particular, it focuses on credit and in particular on providers of microfinance. It enjoys a first mover advantage by being one of the first companies to move banking software into the cloud.

Customers of Mambu are traditional banks, fintech startups, financial institutions, nonprofits and other businesses to power their financial products and services, including ABN AMRO, N26, OakNorth, Orange and Santander

The good

Rapid growth (already 50 markets)

Mambu is forever: lock-in effect is high as it seems difficult to change core banking system

Alongside its own products, it also provides links through to third-party financial services like TransferWise, additional services such as security and a platform for “process orchestration”

The bad

No exposure to interest income

The verdict

Synergy potential Consolidate with SolarisBank to become whitelabeling God.

Vivid Money (young winner)

the core product is a mobile checking account that offers a cashback program called Stock Rewards with which users can receive up to 10% cashback when shopping, stock rewards and ability to create various sub-accounts (pockets) with own IBANs in up to 100 currencies

Launched in June 2020 in Germany in cooperation with Solarisbank

The good

Adding new features (e.g. stock trading and ETFs)

Currently expanding to other countries

Took over Wirecard’s deal with Boon Plant

Unique business model: Cashback program

Customer growth is strong, adding more than 10.000 new App downloads per month since launch

Due to Cashback program potential to become primary account

The bad

No full banking license yet

Already saturated market

Marketing costs are increasing due to more market concentration

The verdict

Growth Potential: this Fintech is only half a year old, but it definitely provides an added value for customers due to the Cashback offering, would work well in the Netherlands

Financing

2

OakNorth (winner)

UK bank targeting small and medium-sized companies and providing business and property loans.

Serving “the missing middle” customers that are often overlooked and won’t find a loan elsewhere.

It provides a credit decision technology that uses forward-looking assessment, focusing on businesses’ growth potential and an alternative forms of collateral.

The good

Unique credit decision technology and algorithm

“Lock-in” effects are high

Lean operating structure (handful of employees loan £Billions)

One of the few neobanks that already made a profit in the first year of operating

The bad

Ceiling on their total market: there are only so many SMEs in need of credit

The verdict

Synergy potential: OakNorth has a secret sauce that has been insanely successful (37K%). Their credit algorithm is mathematical arbitrage. They have no reason to merge/acquire/sell because they are so lean, and the product is already scaleable (think PageRank).

Klarna (winner)

Offers payments for online storefronts, direct payments, post purchase payments and more. Their core service is to assume stores' claims for payments and handle customer payments, thus eliminating the financial risks for both the seller and buyer.

Truly disruptive business model that is redefining the e-commerce experience for millions of consumers and global retailers.

They grow alongside the increasing e-commerce and online payment shift.

The good

Gained a banking license in Germany offering debit cards and savings accounts in Germany

Strong partner network

The bad

Dependent on multiple technology providers

(Default risk due to looser conditions than banks)

Might be bad for society

PayPal Credit, Affirm, other direct competitors

The verdict

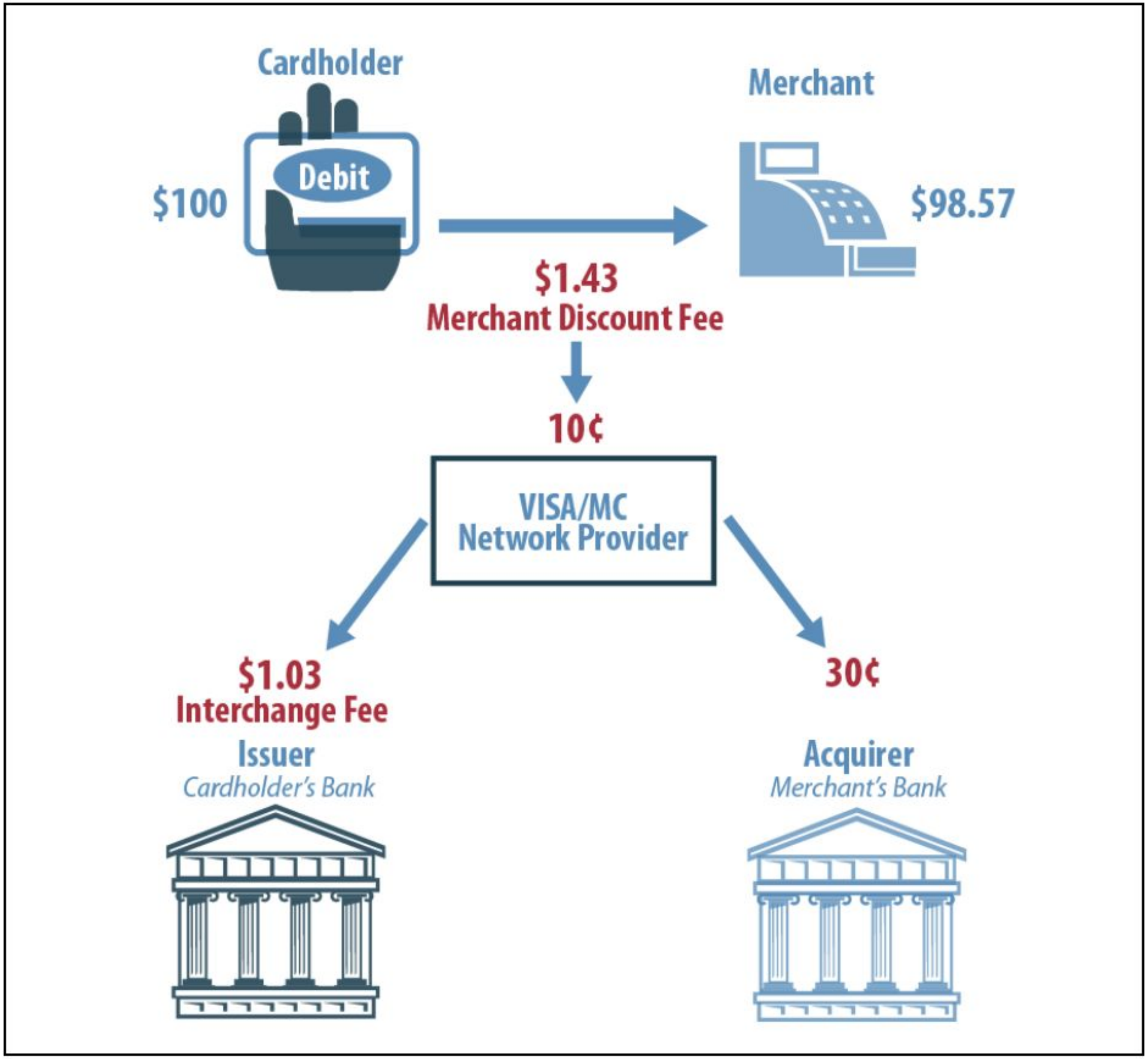
Synergy potential: Klarna drives conversions at checkout. Because of this it takes a 3% cut, way higher than other acquirers. With their license they will now see the entire 3%. Klarna is essentially a highly compensated bank that takes on credit risk. They need to squeeze every algorithmic ounce out of their credit model and so would be ideal for a partnership or merger with any algorithmic credit scorers.

Payments

3

“Payments is a consolidating industry” (Autonomous)

Figure 1. Illustrative Example of Four-Party Network



Source: The Congressional Research Service (CRS).

Stripe (winner)

"Stripe is one of the most successful startups we've funded, and the problem they solved was an urgent one. If anyone could have sat back and waited for users, it was Stripe. But in fact they're famous within YC for aggressive early user acquisition." -Paul Graham, YC

The good

Get paid using just a few lines of code

Funded by two paypal co-founders, Musk and Thiel

Paul Graham literature (http://paulgraham.com/schlep.html)

The bad

Nothing clearly distinguishing them from other acquirers in long term (Adyen, PayPal, Chase Paymentech)

The verdict

Synergy Potential: Stripe is worth $35B so it is probably too big to work with. They could join with Adyen and pursue cashless utopia due to their strong tech presence. But so could PayPal so it all remains to be seen.

Adyen (winner)

Dutch payment company that allows businesses to accept e-commerce, mobile and point-of-sale payments.

The platform connects to payment methods across the world, including international credit cards, local cash-based methods and Internet banking methods and acts as a payment gateway, payment service provider and offers risk management and local acquiring.

More than 3,500+ clients and listed on Euronext stock exchange.

Value add for customers in countries that are almost cash-free like Netherlands, Sweden

The good

Processed payment volume of over €159 billion in 2018

Profiting from rising e-commerce adoption

700% revenue growth and 500% profit growth in last 5 years

Single platform strategy -> does not rely on any third-party system besides the card networks

The bad

Intensifying competition with other payment providers such as Paypal, Square and Stripe

100% reliant on payment processing

The verdict

Synergy Potential: Adyen is the European payment provider. Their best bet is to become the "cashless" one like they are doing in Sweden and Netherlands. Some sort of e-Euro (probably impossible because regulation) or e-Krona would make them special because right now, they are slightly at risk of consolidation with other payments.

Source: Seeking Alpha

PaySafe (risky winner)

PaySafe is the payment provider for iGaming (online poker and sports betting) and cryptocurrency trading
Offer digital wallet "e-chips" which are not subject to regulations (buy once, transfer freely)
Strongest presence in UK and Germany per capita, US by number

The good

Disproportionately large compliance department
The fill a hole in the market bc banks won't allow iGaming
Clients DraftKings and William Hill (>50% of TAM) in US
eCash fairly reminiscent of Ali and WeChat Pay

The bad

They themselves admit their verticals are "high risk"
Should we make it easier for people to gamble?

The verdict

Synergy Potential: Paysafe has customers but some of them are risky. It would be dangerous (but profitable) for them to partner with someone like Klarna who could help get customers over the line but ethically ambiguous as I think we can all agree letting people gamble on credit is not great for society. But you have to admit they are meeting a need as many card issuers will not allow iGaming transactions.

Insurance

4

OscarHealth

US tech-driven health insurance company that was the first health insurance company **built on a full-stack technology platform.**

The company focuses on the health insurance industry through telemedicine, healthcare focused technological interfaces and transparent claims pricing systems which would make it easier for patients to navigate

Customers are 257,000 individual members and small businesses, has the "highest mobile engagement of any insurer"

The good

Mobile app downloads that are approximately 9 times the average of other insurers

The combination of member engagement engine and full-stack technology platform enables the Oscar to help its members find high-quality care.

The bad

Limited to US-presence only

The verdict

Synergy Potential: the company can leverage efficiencies and its revenue enhancing potential by partnering with insurances and health care fintechs.

Getsafe

is a fully digital insurance company based in Germany that allows people to cover themselves from their smartphone. Using technology, the company offers renters, legal and car insurance including coverage on accidental damage, personal possessions, home emergency, tenant liability, and legal protection. In Germany, Getsafe also offers automobile insurance as well as health insurance, and some other coverage segments.

150,000 customers

Many of their customers are said to be millennials who buying their first insurance policy.

The good

Really targeting a niche "first-time insurers"

Average worth per insurance: €40

The bad

No insurance broker license yet → difficult to innovate

Concentrated and complex market

High marketing costs

The verdict

Synergy Potential: Would be a prime target to partner (but not necessarily merge) with a Neobank like Vivid Money or N26.

RegTech

5

Comply Advantage

UK-based company that provides AI-driven financial crime risk data and detection technology.

More than 500 enterprises in 75 countries are customers of CA

The company actively identifies tens of thousands of risk events from millions of structured and unstructured data points every day.

The good

They have data from all clients, so superior data asset

They may have good relationship with governments

The bad

Biggest challenges are the rapidly evolving regulations

Synergy Potential: partner with insurance companies and banks – credit, fraud and ownership data are closely intertwined – if a person has defaulted on a loan then making an insurance claim

Other

6

Yapily and other Open Banking (honorable mention)

Build SolarisBank-like apps without having to start from Solarisbank *de novo*

At their core they are an aggregator

Accounting
Making cash flow smart and predictable

Lending
Increasing lending and reducing risk

KYC
Instantly verify your customer's identity

Payments
Send and receive money for less

Money Management
Unleashing your customer's financial destiny

Corporate Banking
Real-time cash visibility

Propel (honorable mention)

Wallet for food stamps (inbound and outbound)

The good

Clear value creation by simplifying a complicated gov't thing

Adds another layer of difficulty to food stamp fraud

Good reputation

The bad

Not mass affluent customers

Growth potential: Extend to social security benefits, become the "government benefits" wallet

Backup

7

Payment Service Directive (PSD) 2

- The **Revised Payment Services Directive** (**PSD2**, **Directive (EU) 2015/2366**, which replaced the **Payment Services Directive (PSD)**, **Directive 2007/64/EC**) is an EU Directive, administered by the European Commission (Directorate General Internal Market) to regulate payment services and payment service providers throughout the European Union (EU) and European Economic Area (EEA).

- ***Purpose:*** to increase pan-European competition and participation in the payments industry also from non-banks, strengthen consumer protection the rights and obligations for payment providers and users, and promote innovation in the industry.

- ***Key objective:*** creating a more integrated European payments market, making payments safer and more secure and protecting consumers.

Healthcare Fintech

GemOs

- Blockchain based fintech platform provides healthcare networks with a shared digital infrastructure

DreamQuark

- uses deep learning algorithms to automate data processing and generate recommendations accordingly

Simplee

- Data driven platform that tailors health payment options to match patient preferences

→ by maximizing the clinical knowledge and decision making capabilities of providers and insurance companies, both solutions combined give much needed resources back to patient engagement

→ patient satisfaction is a crucial requirement for fintech success

Source: Forbes, 2019

Lock-in effects for technology are high → it becomes time consuming and costly to switch or change from an existing software to a new one → therefore Fintechs that offer a unique software will be most promising based on our research

Having data assets are very important for firms in the future for various reasons. Fintechs differentiate themselves from traditional financial institutions by being more transparent, flexible and user-centric. Therefore, by owning these data assets about consumers, companies are able to tailor their product and service offerings to their customers to respond to their needs.Also, by selling these data assets, companies can create lucrative additional sources of revenue.

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