

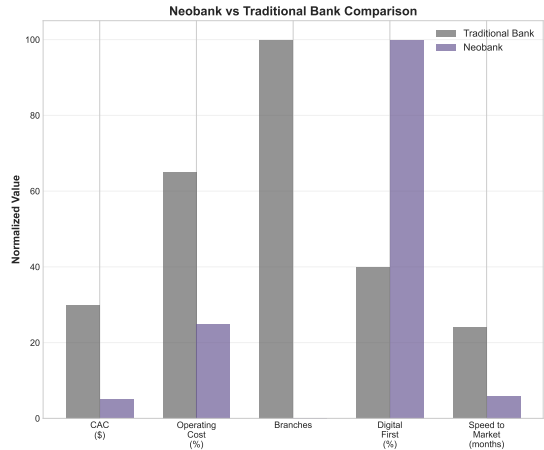
Lesson 4: Neobanks and Challenger Banks

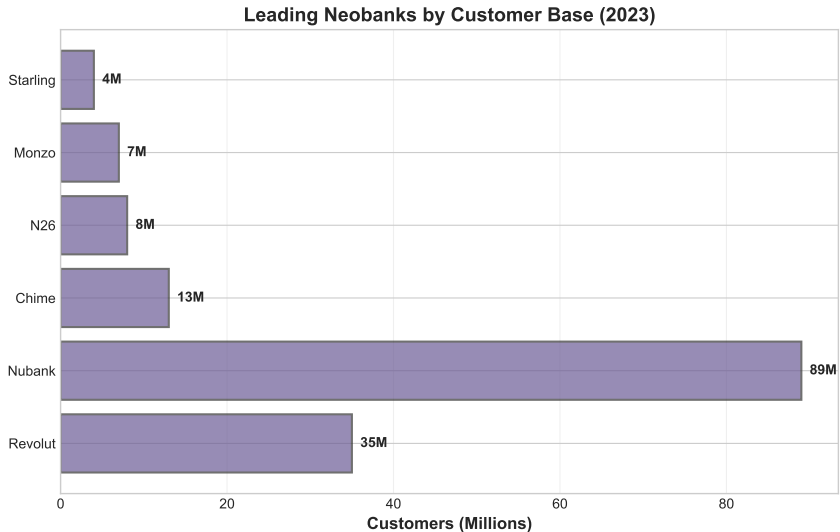
Module 1: FinTech Fundamentals

Digital Finance

Digital-First Banking

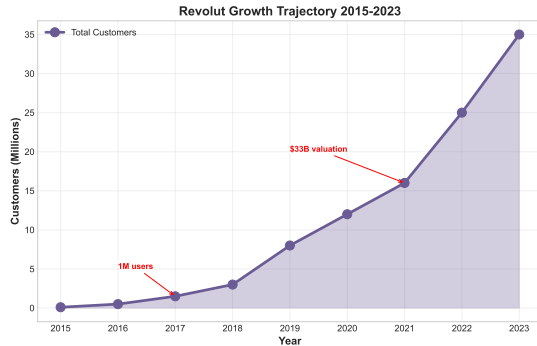
- No physical branches
- Mobile app primary interface
- Cloud-native architecture
- Lower operating costs



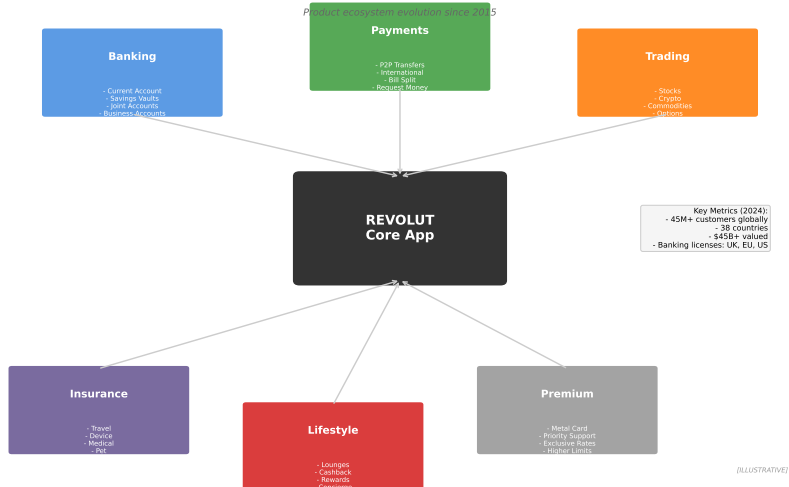


Growth Trajectory

- Founded: 2015 (UK)
- 35M customers (2023)
- \$33B valuation
- 38 countries operational



Revolut: From Neobank to Financial Super App

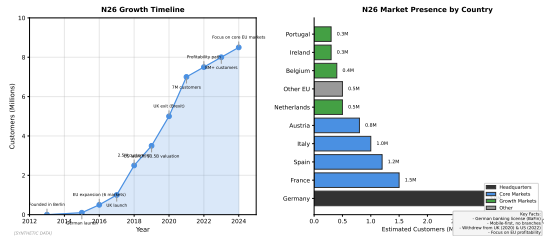


N26: European Challenger

German Banking License

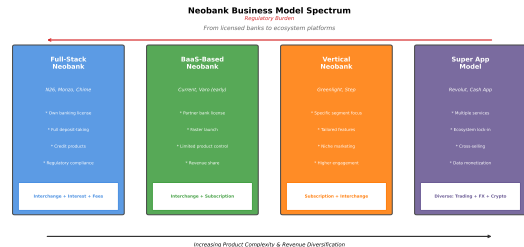
- Founded: 2013 (Berlin)
- 8M customers
- EU passporting rights
- Premium tier focus

N26: European Digital Banking Leader

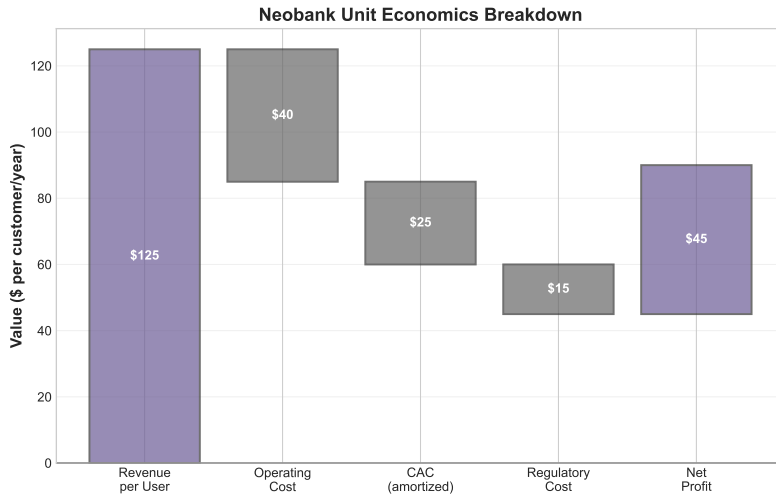


Three Archetypes

- Freemium (Revolut)
- Subscription (N26 Metal)
- Transaction-based (Chime)
- Hybrid approaches



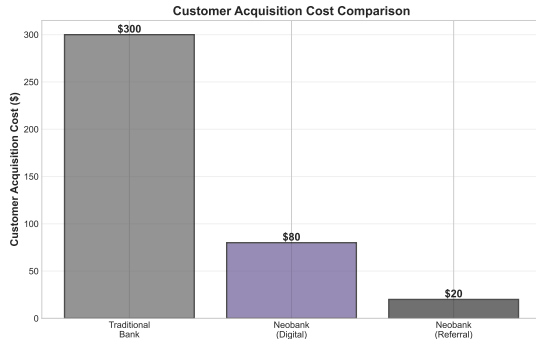
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Customer Acquisition Cost (CAC)

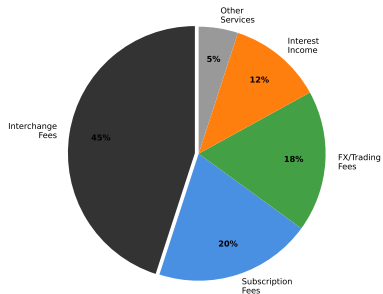
Acquisition Metrics

- Traditional bank: **\$200-400**
- Neobank: **\$20-80**
- Viral coefficient: 0.3-0.7
- Payback period: 6-18 months

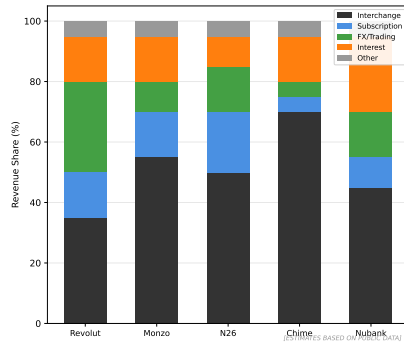


Neobank Revenue Model Analysis

Typical Neobank Revenue Mix



Revenue Mix by Neobank



Source: Company annual reports 2023, industry estimates

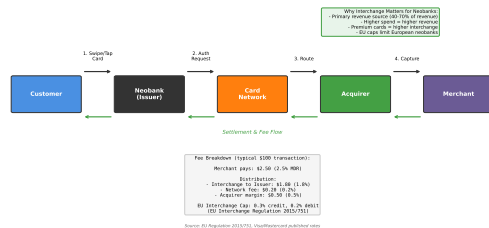
Interchange Revenue Model

Debit Card Monetization

- Interchange fee: 0.2%-2%
- Merchant pays to issuer
- Volume-dependent profit
- EU cap: 0.2% (Durbin)

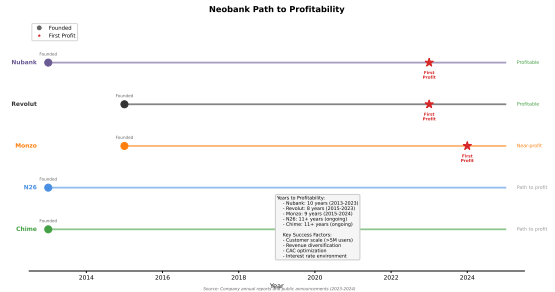
Card Payment Interchange Flow

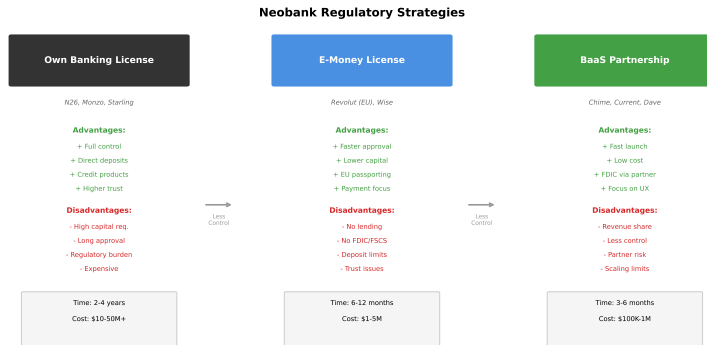
How neobanks earn revenue from card transactions



Path to Breakeven

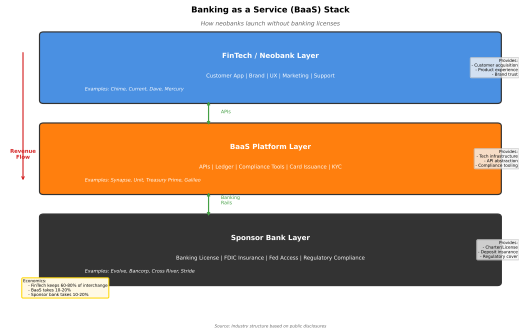
- High growth vs profit trade-off
- Regulatory capital requirements
- Scale threshold: 5M+ users
- Cross-sell dependency

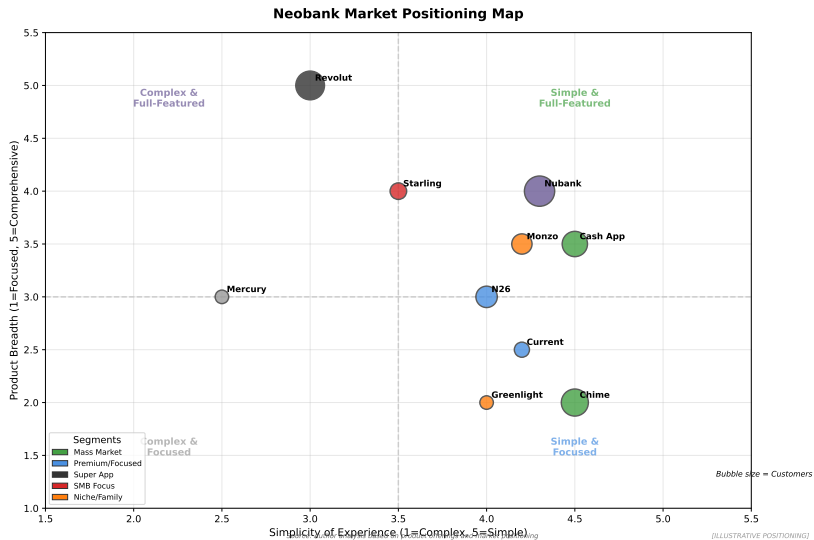




BaaS Relationships

- Chime + Bancorp Bank
- Faster time to market
- Lower regulatory burden
- Revenue sharing (30-50%)



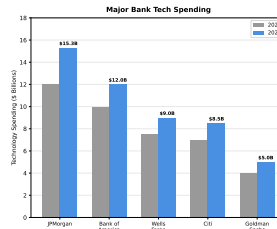


Traditional Bank Response

Digital Transformation

- Marcus by Goldman Sachs
- JPMorgan Chase Mobile
- Core banking modernization
- Acquisitions (BBVA → Simple)

How Incumbent Banks Respond to Neobank Competition



Incumbent Response Strategies

Build Own Digital Bank

Create separate digital brand
Examples: Marcus (Goldman), Zelle, Chase Digital

Acquire FinTech

Buy innovation and talent
Examples: Visa-Paycom, JPM-Walby, Goldman-Greensky

Partner/Invest

Monitor and collaborate
Examples: Strategic VC arms, accelerators

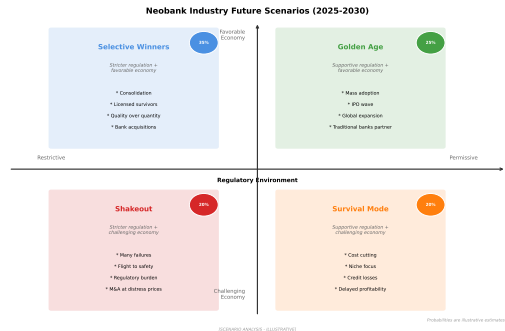
Modernize Core

Transform from within
Examples: Cloud migration, API platforms

*Data from our proprietary database

Market Consolidation

- M&A acceleration expected
- Super-app convergence
- Embedded finance integration
- Regulatory clarity needed



- **Cost Advantage:** 10x lower CAC than traditional banks
- **Business Models:** Interchange + subscriptions + lending
- **Unit Economics:** Profitability requires 5M+ scale
- **Licensing:** Partner vs own license trade-offs
- **Competition:** Incumbents investing heavily in digital