

Lesson 4: Neobanks and Challenger Banks

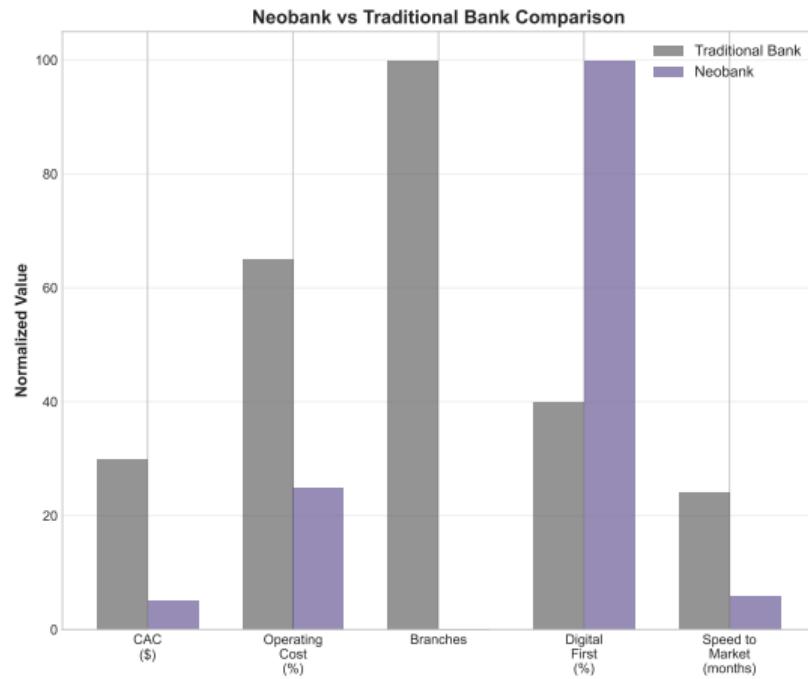
Module 1: FinTech Fundamentals

Digital Finance

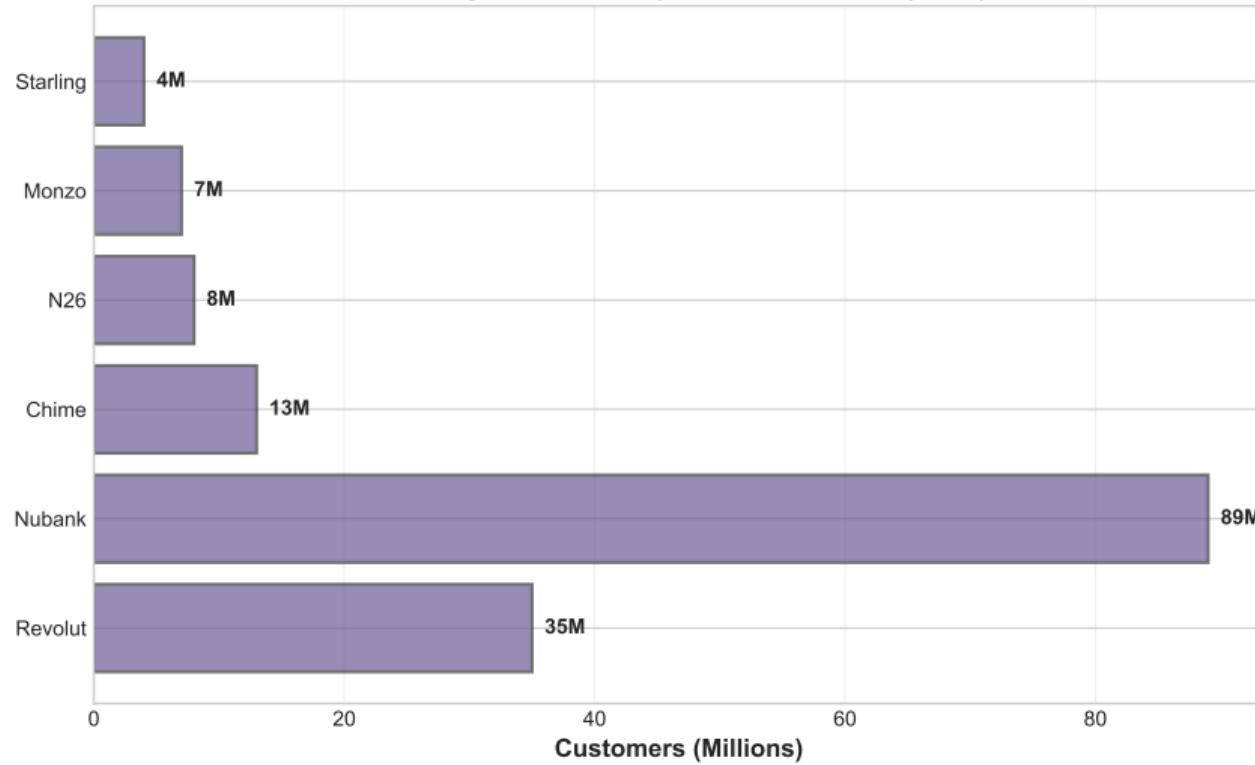
Neobank Definition

Digital-First Banking

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



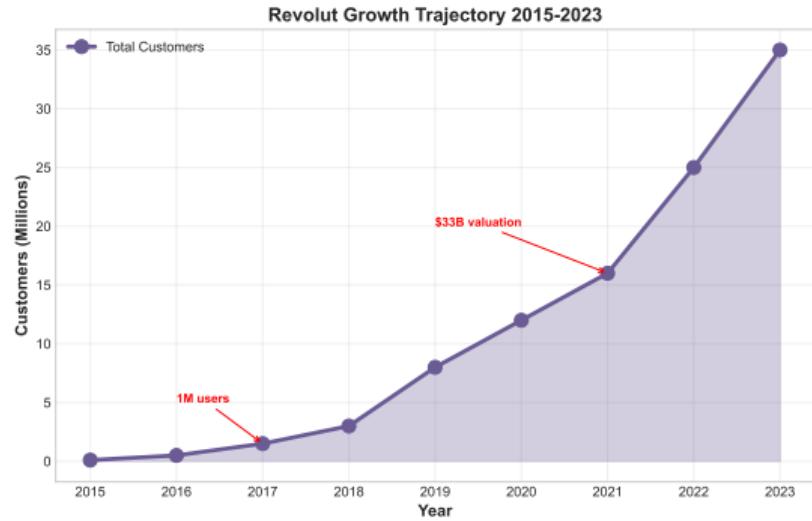
Leading Neobanks by Customer Base (2023)



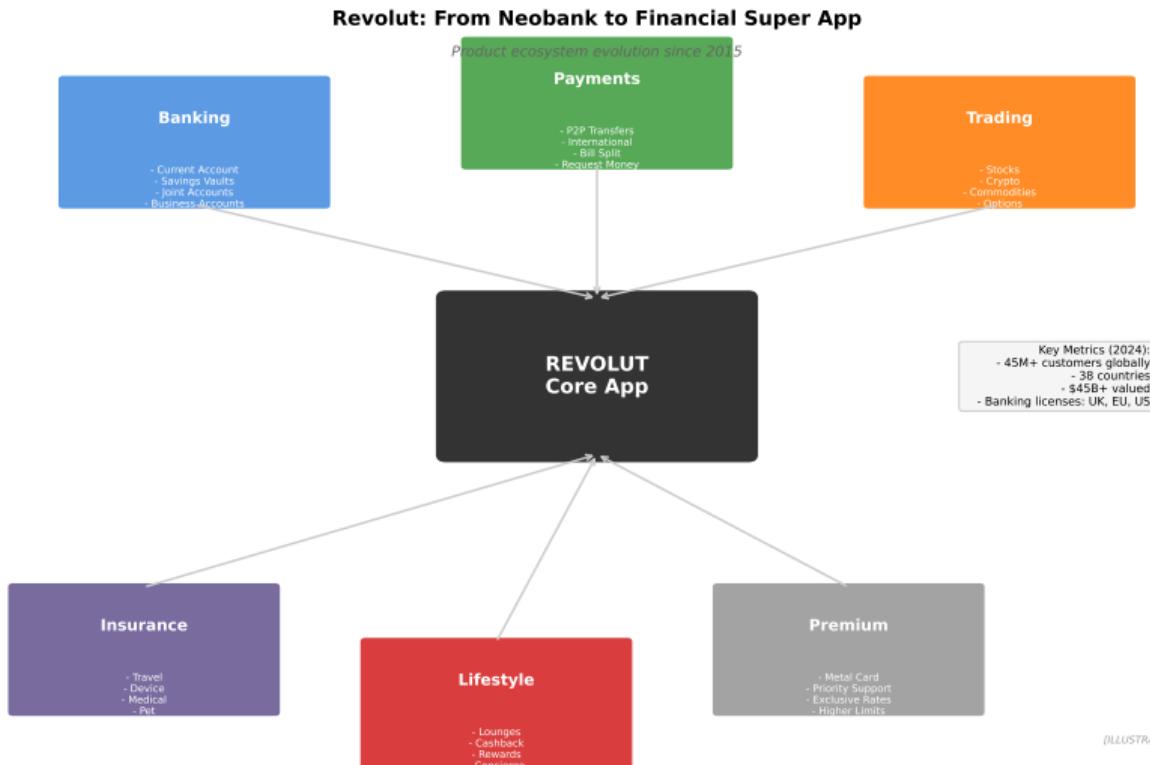
Revolut: Case Study

Growth Trajectory

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



Revolut Product Suite



(ILLUSTRATIVE)

N26: European Challenger

German Banking License

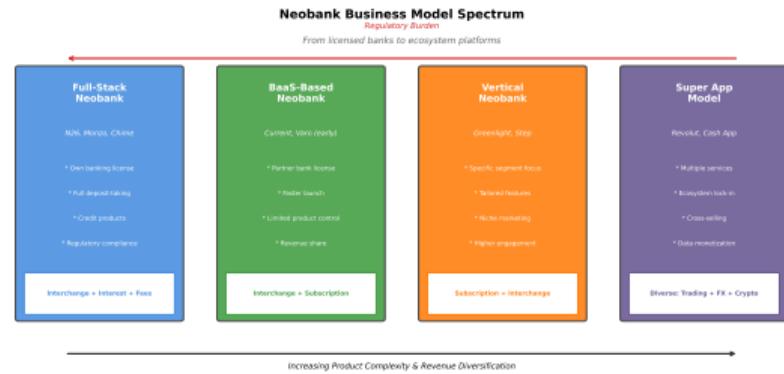
- Founded: 2013 (Berlin)
- 8M customers
- EU passporting rights
- Premium tier focus



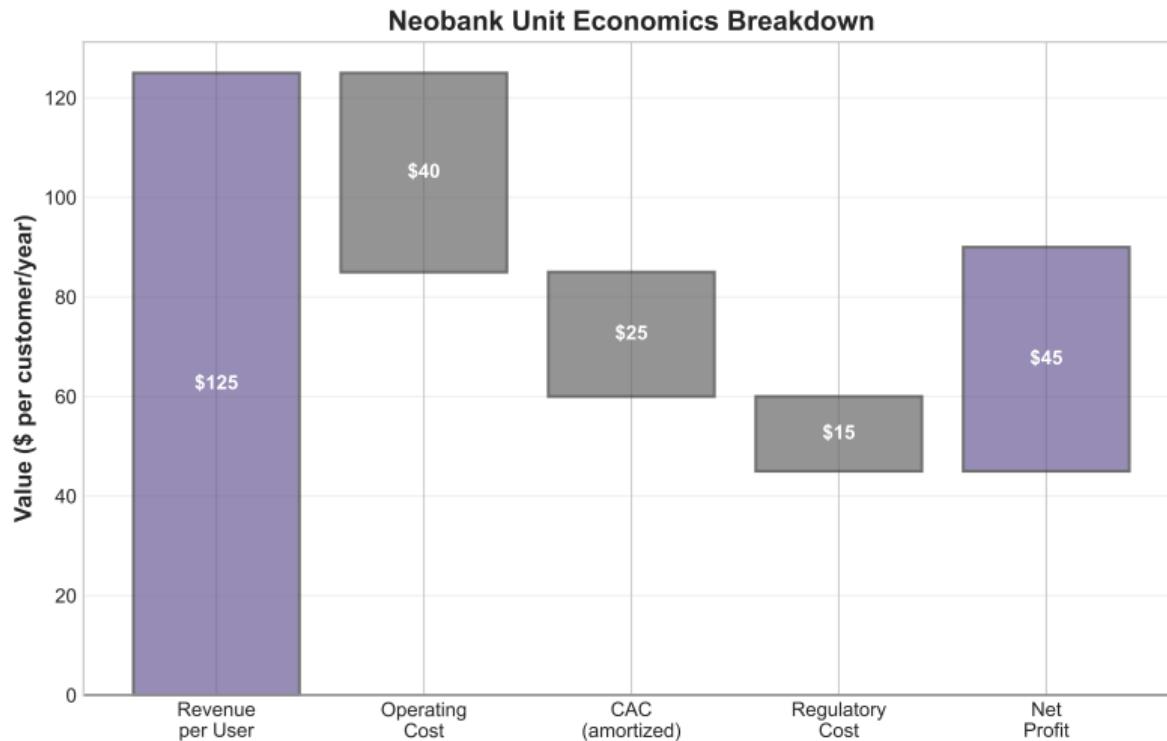
Neobank Business Models

Three Archetypes

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



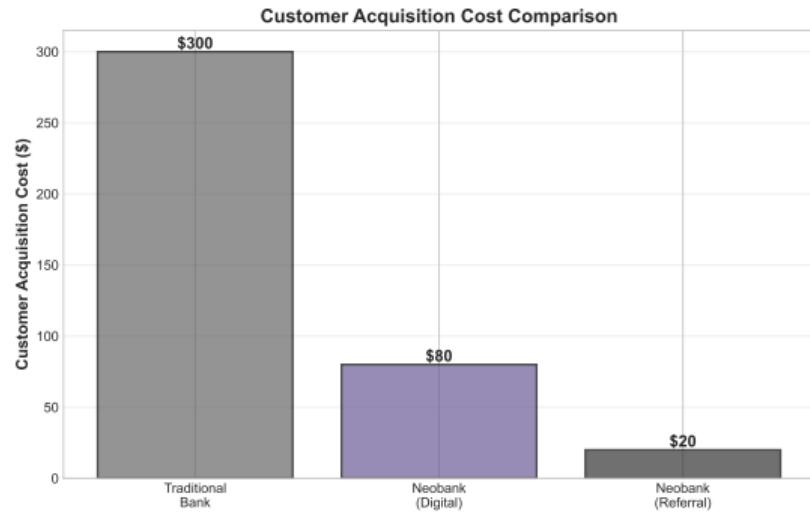
Unit Economics Analysis



Customer Acquisition Cost (CAC)

Acquisition Metrics

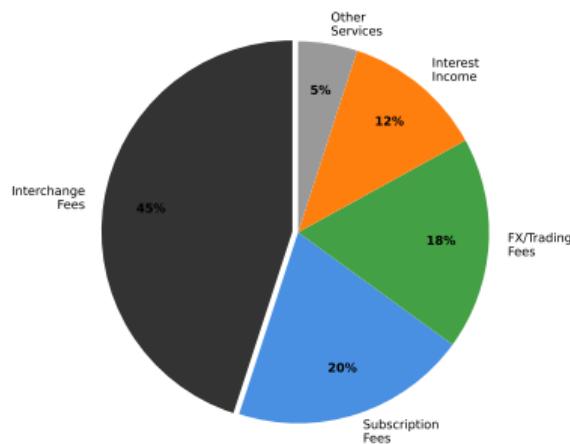
- Traditional bank: \$200-400
- Neobank: \$20-80
- Viral coefficient: 0.3-0.7
- Payback period: 6-18 months



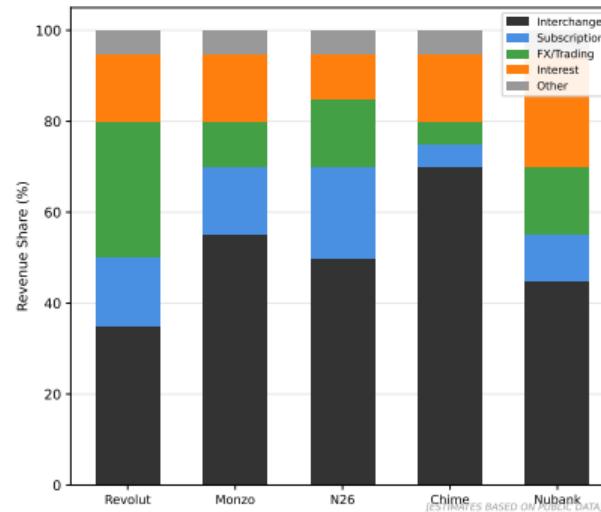
Revenue Streams

Neobank Revenue Model Analysis

Typical Neobank Revenue Mix



Revenue Mix by Neobank

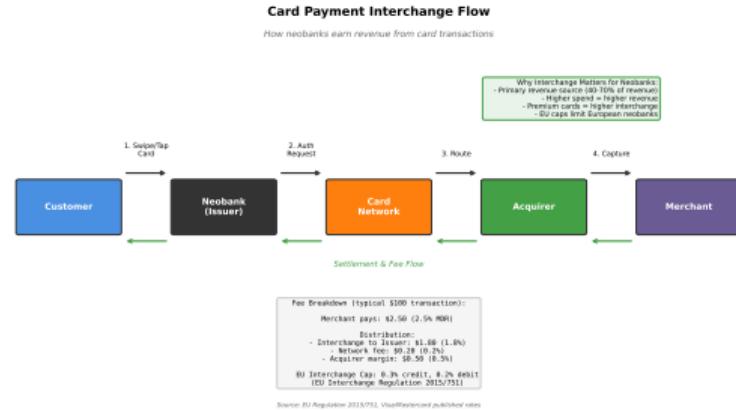


Source: Company annual reports 2023, industry estimates

Interchange Revenue Model

Debit Card Monetization

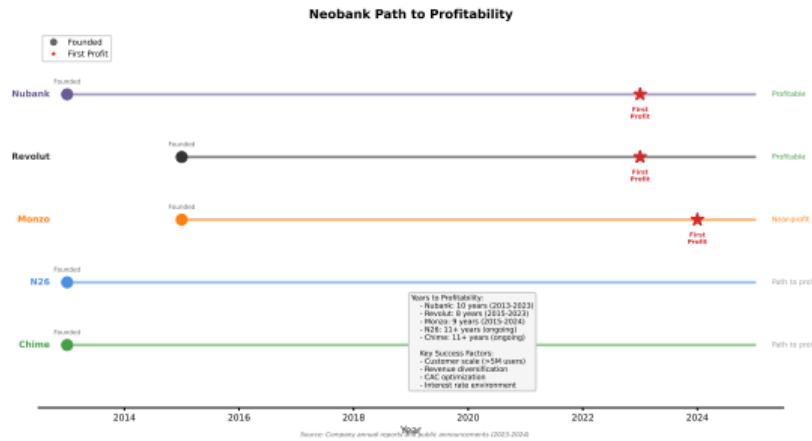
- Interchange fee: 0.2%-2%
- Merchant pays to issuer
- Volume-dependent profit
- EU cap: 0.2% (Durbin)



Profitability Challenges

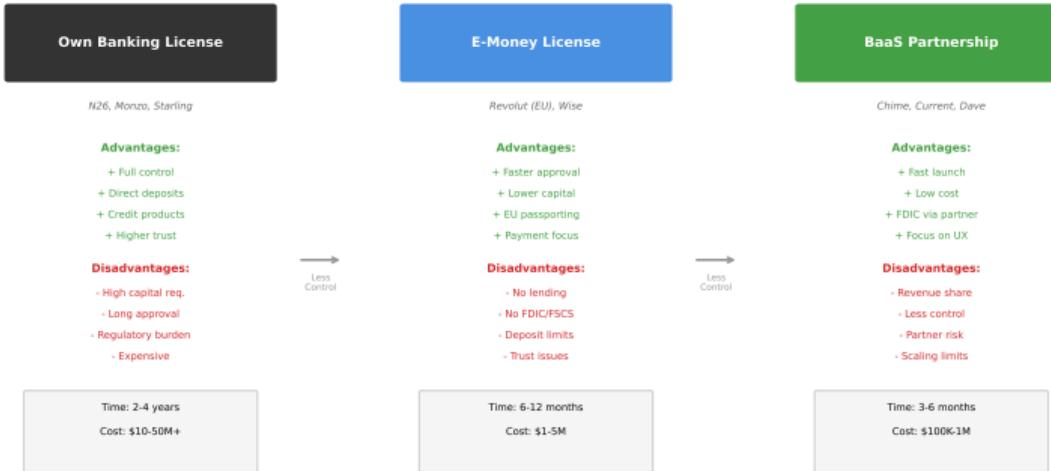
Path to Breakeven

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



Banking License Strategies

Neobank Regulatory Strategies

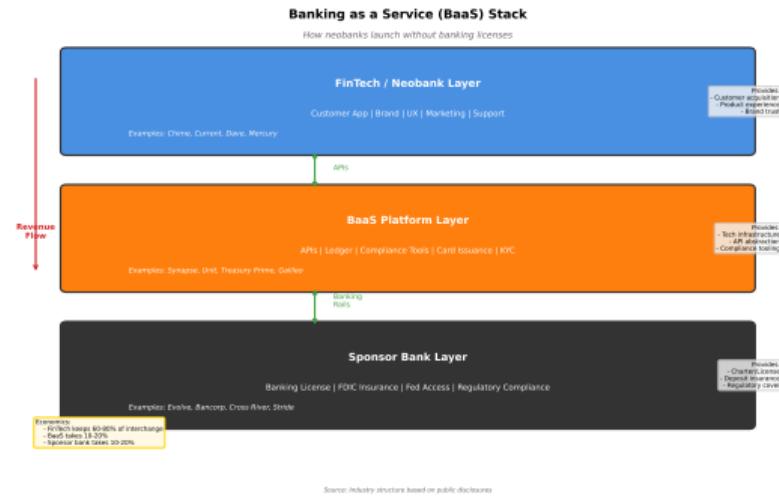


Source: Regulatory filings, company announcements

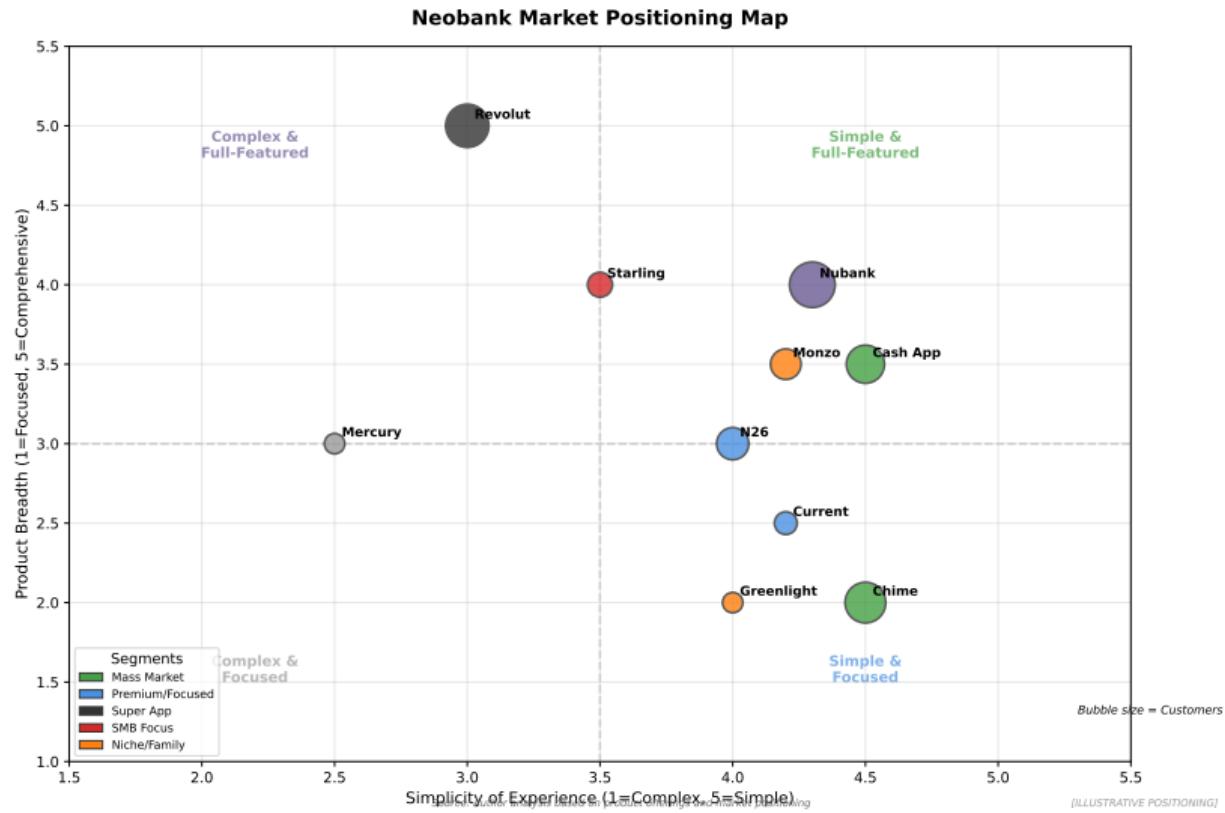
Partner Banking Model

BaaS Relationships

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



Competitive Landscape

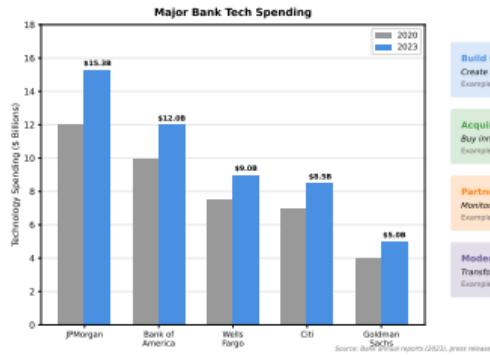


Traditional Bank Response

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 Pay+, JPMoneypay, Goldman-GreenSky

Partner/Invest
Monitor and collaborate
Examples: Strategic VC arms, accelerators

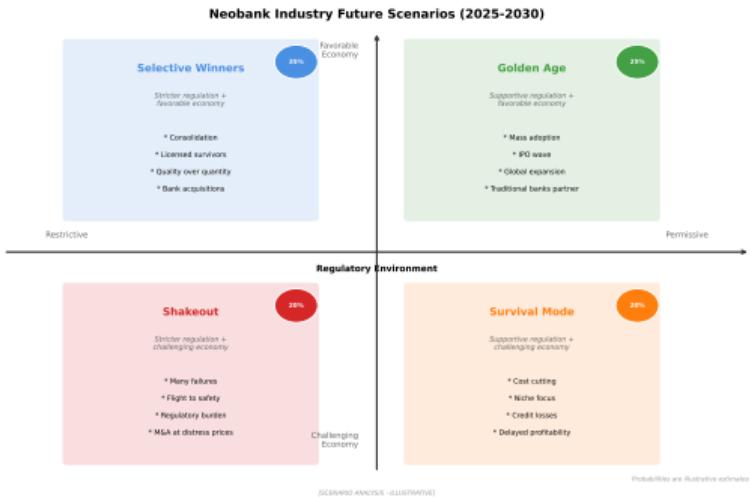
Modernize Core
Transform from within
Examples: Cloud migration, API platforms

*Non-financial deal (renamed/absorbed)

Future Outlook

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