

A Case Study of Varo Bank

Introduction

Varo Bank is the first Neobank and national online bank within the United States, and a leader in the future of mobile banking. Founded in 2015, Colin Walsh founded Varo with a specific vision: to improve the customer's financial lives with a full suite of banking and financial production (Colin Walsh - Forbes Councils). The services presented by Varo Bank are to enable access to financial banking with all users. It aims to meet the needs of 180 million financially underserved Americans, disproportionately minorities and people of color (Latimore, no date). The ability to continuously service all users regardless of financial status will lead to continuous growth within the company as new and current users would utilize the app for various financial assistance. As stated by Colin Walsh "Of all the fintechs, varo has the clearest path to profitability due to our diversified revenue streams, lower cost base and capacity to generate our own capital". The financial investment towards the development of Varo Bank has led to a "revolution" of mobile banking, and has paved the way for future integration of financial technology innovation.

Origin of Varo Bank

Prior to the development of Varo Bank, Colin Walsh, 52, was previously an executive at Wells Fargo and American Express (Kauflin, 2021). During his time as executive, Walsh developed an understanding of potential customers that were being ignored, which would be addressed with the development of the firm Varo bank. As stated on the company's website, Today, the key target demographic is the millennial tech savvy 20 and 30 somethings who, generally speaking, are just getting started in the finance game. As a result, individually, a millennial is often not the big bank's ideal customer despite the size of the total demographic (Sikorsky, 2021). With the understanding of the current market, Colin Walsh founded Varo Bank in 2015, which was launched in 2017. The foundation of Varo Bank was based on a single statement by Colin Walsh, "we founded Varo because we saw that banks weren't serving the majority of their customers very well, and we wanted to fix that. So we decided to build a bank from the ground up with the goal of improving consumers' financial health through better technology and a more efficient business model" (Varo, Banking Startup with a Social Mission, Makes History, 2020).

Investments and public relations

During the span of 2016 to 2021, Varo Bank received an estimated \$992 million in investment (Varo Money Company Information). One of the biggest investors was in February of 2021, when Varo Bank received an estimated \$63 million dollars in funding from the Russell Westbrook Enterprise. As stated on the CNBC website, National Basketball Association star Russel Westbrook has joined financial tech firm Varo as a new investor after the company received \$63 million in a new funding round (Young, 2021). The agreement between Westbrook and Varo Bank was to get the attention of the public, and send a message regarding the goals and aspirations of the firm. After the agreement Mr. Westbrook made this statement to the public "The banking system has ignored or underserved a large portion of the American population, particularly communities of color. (NBA MVP Russell Westbrook Leads \$63 Million Strategic

Investment in Varo Bank, 2021). With the investments and advisors with close ties to the public, Varo Bank had developed a strong flow of funding to develop the mobile banking app, and generated interest for potential users of the application.

Technological Innovations

In the Celent Model document, Varo Bank reported that over 60% of 3.1 million users are directly depositing their payroll into their Varo accounts. With the increase in potential users on the application, Varos Bank utilized the cloud-based technology to handle various groups of data that would be from the financial interactions of their users. On September 1st, 2020, Varo Bank and Temenos (banking software company) announced a new cloud-native technology to continue supporting all current and future Varo users. Temenos Transact core banking software technology hosted in the cloud supports Varo's digital banking services. Its advanced cloud-native platform enables Varo to continuously deploy new features and products and innovate rapidly. Temenos' platform also allows the bank to automate its back office, lower costs and benefit from lower-cost/income ratio, supporting Varo's ability to scale based on customer demand and offer an expanded portfolio of services at a reduced cost such as checking and saving accounts with no monthly fees (R, 2021). Such software would ensure that all specific business needs would be met while continuing to be cost-effective for the current market. The national bank charter allows Varo to expand its offering of comprehensive, FDIC-insured banking services and accelerate the pace of product innovation. The Temenos' APIs Temenos technology support is expected to help the bank to launch its next generation of new banking products and features with reduced time to market and at a lower cost (R, 2021).

Competitive Advantages

Unlike other competitors Varo Bank is a charter bank, which gives it a competitive advantage to other organizations such as Chime, Atom Bank, and One Finance. These moves by fintech startups come at a time when the younger generation is ditching legacy banking in favor of tech. Millennials in particular don't trust big banks, preferring instead the fee-free challenge banks offering modern mobile features they've come to expect from all their other apps (Perez, 2020). As a full-fledged national bank, however, Varo has the ability to do much more on its modern tech platform than most neobanks. Since receiving its charter, Varo has added a short-term line of credit and a cashback reward program (Guillot, 2022). The high amount of funding and business organization has enabled Varo to remove any and all risk and financial leverage that would have existed in a partnership or agreement for financing with other banks. Self-independence would be something that would be pursued in the future since it enables mobile banking to follow separate regulations that would have hindered both the user and the company.

Recommendation

Overall, Varo Bank is a strong mobile banking leader in the current industry, and will continue to innovate for future development within the company. However, compared to companies such as Chime and Atom Bank, Varo would be considered stagnant based on all the comparative

advantages of being an independent mobile bank. During the lockdown event, Stimulus checks were deposited for mobile banking users, which displayed an idea of live users. A spokesperson for Varo Bank, the first challenger bank to gain a national bank charter last summer, said it has processed \$150 million in stimulus payments for "tens of thousands" of customers so far. Fellow fintech Chime tweeted Saturday its members had received more than \$3 billion in stimulus payments (Hrushka, 2021). The amount of stimulus money allocated to the companies displays a clear gap in user differential. Varo Bank shouldn't have a lack of users based on the innovations that are lacking within its competitors. It would be best to expand relations with the public through joint projects or marketing higher user areas, which would be majority middle to lower class.

Source

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