

# BUSINESS INSIDER

## THE FUTURE OF BANKING: Growth of innovative banking fintech services



ANDREW MEOLA  
DEC. 15, 2016, 9:12 AM

Banking is a rapidly changing industry, and the biggest paradigm shift that has occurred is the move to digital-only banks.

Millennials, in particular, are moving more frequently toward digital banking. And as a result, they're walking into their banks' traditional brick-and-mortar branches less often than ever before.

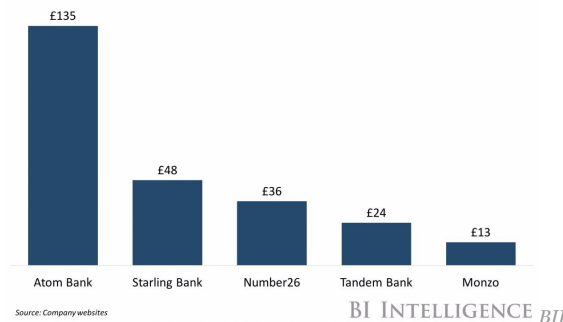
This generation represents the greatest share of the U.S. population at 26% and the employed population at 34%, so it's clear that their behaviors and preferences will have a profound effect on the future of the banking industry, particularly with regard to the way banks interact with their customers.

This shift to digital banking has come in many forms. Traditional powers such as Bank of America, JPMorgan Chase, Wells Fargo, and more have released [mobile banking](#) apps to let customers manage their accounts from their smartphones. And some startups have taken this approach one step further by creating digital-only banks that completely remove the need for a physical branch.

Below, we've outlined some of the key points on future banking and [mobile banking](#), including the future of investment banking, innovations in online banking, and how these new players plan to grow financial electronic banking.

Total Funding Raised By Major European Digital-Only Banks

Millions (£), 2016



### Banking Is a Rapidly Changing Industry

Digital-only bank Ally launched in the U.S. in 2008 and at the time, it was one of the first of its kind. But multiple new players have entered the scene in the last few years. These include Monzo, Tandem, N26, and Fidor in Europe, along with Digibank in India and B1NK in Kazakhstan.

These banks hold key advantages over traditional institutions, such as freedom from historical tech restrictions and the fees associated with brick-and-mortar branches. And in many nations, financial regulations also help these banks flourish. In Europe, these digital-only banks will soon be able to access customer data from traditional banks.

Furthermore, new players can almost always offer better rates and lower fees to customers, and these banks typically provide innovative services that can more easily be tailored to individual customers' needs.

And yet, digital-only banks face major problems in terms of customer acquisition as more of them flood the market and customers hesitate to leave a well-known, established bank for a startup. As a result, they haven't yet posed a true threat to legacy banks.

### Innovation Banking

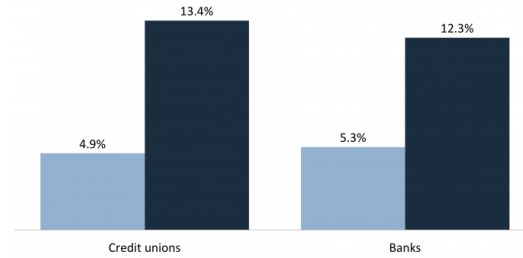
As fintechs have flooded the scene and disrupted the financial industry, traditional banks have had to innovate in order to stay ahead of the pack.

Corporate investors, specifically traditional players, have started to increase their [fintech investments](#) in the last couple of years. This trend is likely to continue in the coming years as incumbents try to stake their claim to the most innovative [fintech startups](#).

**Mobile Banking Vs. Branch-Only User Attrition Rates**

US credit unions, 2014-15

■ Mobile banking users ■ Branch-only users



Source: Fiserv Mobile Banking Adoption White Paper

BI INTELLIGENCEBI Intelligence

On top of this, the biggest banks have already set aside major resources to digitize their businesses. In fact, more than 40% of North American banks have dedicated more than 25% of their IT budget to digital transformation. This can include developing new consumer-facing products and services and modernizing core transactional systems.

To achieve this goal, most traditional banks will use third-party suppliers or will acquire [fintech startups](#) for education and mutual benefit.

## High Growth in Mobile Banking

The payments segment is much more mature than other fintech areas, and a small handful of companies now dominate the business-to-consumer (B2C) space in particular.

PayPal is the undisputed leader in digital payments in the U.S. and Europe, while Apple Pay and Android Pay have taken over the top spots for in-store mobile payments all around the world. Furthermore, Alipay and WeChat are the top players in China.

The remittance space has also exploded thanks to companies such as TransferWise, which has been valued at over \$1 billion, as well as Remitly, WorldRemit, and Azimo. And digital-first Xoom makes more revenue from electronic channels than 75-year-old MoneyGram, the second-largest remittance company in the world.

## Digital-Only Banks

We touched on digital-only banks in a previous section, but there is still much more to cover. As stated earlier, these banks have the advantage of flexibility and the ability to offer innovative services at much lower rates than legacy players. But these startups often struggle with customer acquisition, particularly amid competition.

In North America, banking customers have shown a greater willingness to switch banks. In fact, 11% switched providers in 2015, and 19% of those went to a bank with no brick-and-mortar branches. But there is an important caveat here.

There are very few options for digital-only banks in the U.S. but in Europe, the options are plentiful. Digital-only banks across the pond are competing both with legacy banks and with each other for customers. So in order to lure clients away from their existing bank, they have to offer a significantly better product than their competition.

As a result, these digital-only players have yet to pose a true threat to the Bank of Americas and JPMorgan Chases of the world. Their products are still too new, and customers are still hesitating to take the risk of letting a startup manage their money. But these banks are gaining ground in the U.S., and upcoming regulation in Europe will help digital-only banks spread their influence in that region. Therefore, legacy players must improve their offerings in order to stay ahead.

## Digital-Only Bank Names to Know

**Monzo**

Number of Employees: 11 to 50

Total Funding: \$17,699,015

One Thing to Know: U.K. digital-only mobile bank Monzo was founded as Mondo in 2015.

## **Starling Bank**

Number of Employees: 1 to 10

Total Funding: \$70,000,000

One Thing to Know: Amazon Web Services named Starling Bank as one of its four Hot Startups to watch in November 2016.

## **Ally Bank**

Number of Employees: 1,000 to 5,000

Total Funding: N/A

One Thing to Know: Ally Financial went public on April 10, 2014



*The Street*

## **Tandem**

Number of Employees: 101 to 250

Total Funding: \$34.8 million

One Thing to Know: Digital-only bank Tandem has an official banking license with the Bank of England.

## **Fidor Bank**

Number of Employees: N/A

Total Funding: N/A

One Thing to Know: Groupe BPCE acquired the Munich-based web bank on July 28, 2016.

## **Tide**

Number of Employees: N/A

Total Funding: \$2 million

One Thing to Know: Tide claims it can get you a business MasterCard in just three minutes.

## **N26**

Number of Employees: 101 to 250

Total Funding: \$52.73 million

One Thing to Know: Famous Silicon Valley investor Peter Thiel has backed the company, which obtained a full German banking license in July 2016.

## **Simple**

Number of Employees: 251 to 500

Total Funding: \$15.29 million

One Thing to Know: Simple has more than 100,000 customers and processed \$1.7 billion in annual transactions in 2015.

## Atom

Number of Employees: 11 to 50

Total Funding: \$166.34 million

One Thing to Know: Atom users can log in to the [mobile banking](#) app using facial recognition.

## More to Learn

Innovation in banking merely scratches the surface of the fintech industry, which is growing in unprecedented ways.

That's why BI Intelligence spent months compiling the best and most exhaustive guide on the world of fintech entitled [The Fintech Ecosystem Report: The Emerging Technologies and Firms Driving Change in Financial Services and How Legacy Players Can Navigate The Disruption](#).

To get your copy of this invaluable guide to the payments industry, choose one of these options:

1. Subscribe to an ALL-ACCESS Membership with BI Intelligence and gain immediate access to this report AND over 100 other expertly researched deep-dive reports, subscriptions to all of our daily newsletters, and much more. >> [START A MEMBERSHIP](#)
2. Purchase the report and download it immediately from our research store. >> [BUY THE REPORT](#)

The choice is yours. But however you decide to acquire this report, you've given yourself a powerful advantage in your understanding of the fast-moving world of financial technology.

## Learn more:


- [Credit Card Industry and Market](#)
- [Mobile Payment Technologies](#)
- [Mobile Payments Industry](#)
- [Mobile Payment Market, Trends and Adoption](#)
- [Credit Card Processing Industry](#)
- [List of Credit Card Processing Companies](#)
- [List of Credit Card Processing Networks](#)
- [List of Payment Gateway Providers](#)
- [M-Commerce: Mobile Shopping Trends](#)
- [E-Commerce Payment Technologies and Trends](#)

## Get updates in your inbox

*Subscribe to Fintech Briefing and never miss an update!*

<input type="text" value="Email Address"/>	<input type="button" value="Sign-Up"/>
<a href="#">Privacy Policy</a>	

## Recommended From The Web

Promoted Links by Taboola 

3 "Death Foods" That You Should Avoid

BIO X4 Supplement

The Highest Paying Cash Back Card Has Just Hit The Market

## Need New Socks? Get An 8-Pack Of These ASAP

Bombas Socks

## Don't Do It Yourself - Hire A Los Angeles Handyman For Your Home Projects

HomeAdvisor

## Los Angeles, California: This Brilliant Company Is Disrupting A \$200 Billion Industry

EverQuote Insurance Quotes

## Most Embarrassing Prom Photos Ever Captured Online

Lifestylogy

## 10 Actors Who Actually Did It On Screen

Trend Chaser

## The Must-Have Spy Device Every Car Owner Needs To Possess

TechieFans

Ivanka Trump's Instagram put her at the center of a controversy over her lavish art collection

Saudi Arabia is building the world's tallest building – nearly twice the height of One World Trade Center

'Really?': A reporter calls out Huckabee's claim that 'countless' FBI employees were happy with Comey's firing

Here's why the American flag is reversed on military uniforms

RICHARD BRANSON: We've just 'got to give Donald Trump and his team three months, six months'

MICHAEL MOORE: 'I think there's an excellent chance' Trump will be president

