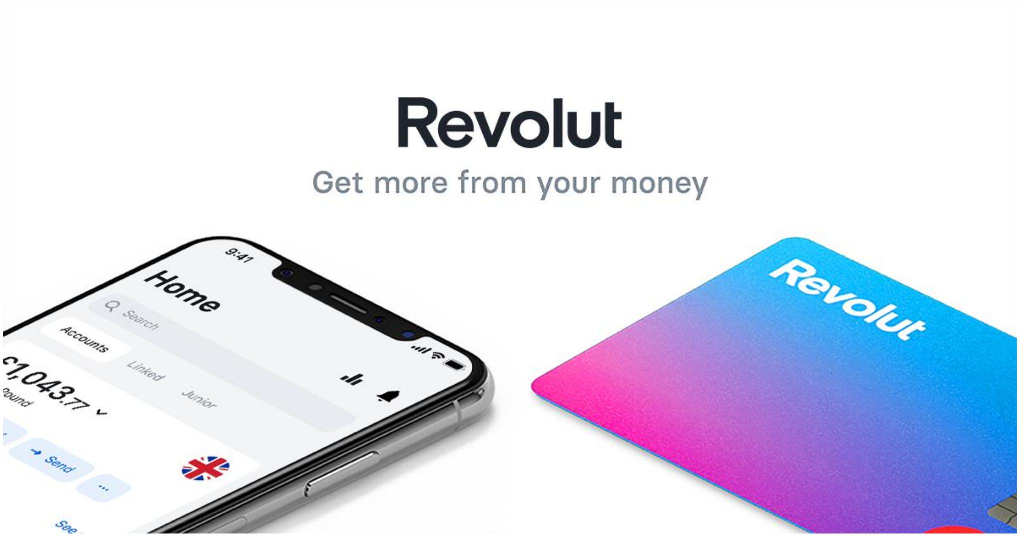
BEEM062J Main Assignment

Part A

Preface:

In this Business Report I am going to do a detail study on a FinTech firm call Revoult. In which I will go through its background, history of the firm. How they are disrupting the banking industries. Analysis their SWOT and giving some future recommendation for improvement.



General Background, History and Current Data:

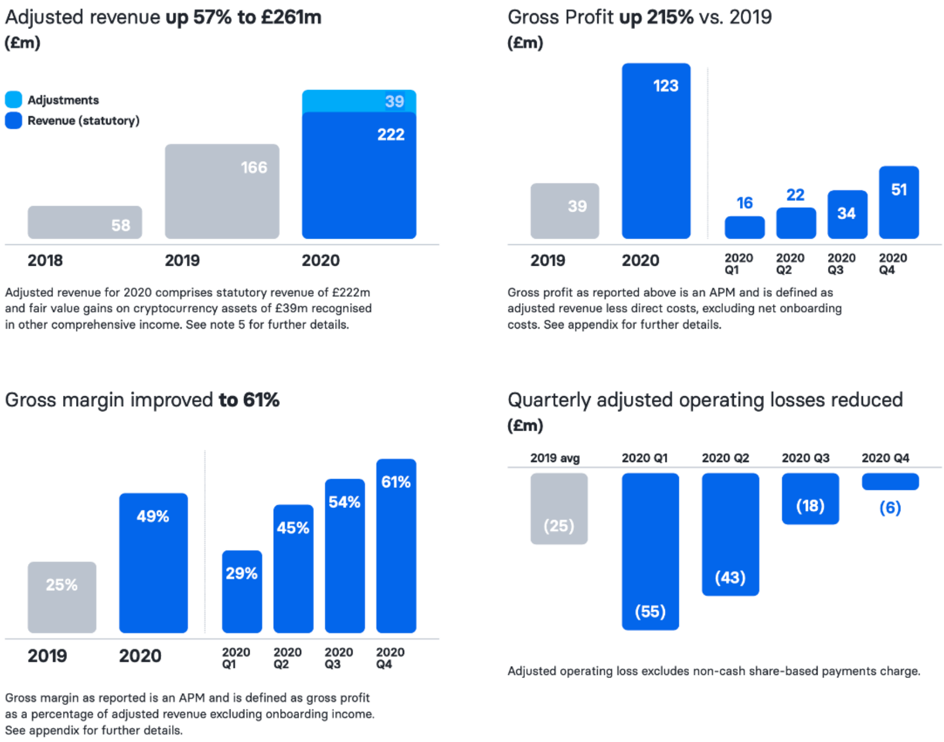
Revolut is a financial technology company that offers banking services. Headquartered in London, England, it was founded in 2015 by Nikolay Satoransky and Vlad Yatsenko. It offers accounts featuring currency exchange, debit cards, virtual cards, Apple Pay, interest-bearing "vaults", commission-free stock trading, crypto, commodities, and other services. Revolut has expanded into new markets such as Japan and expanding staff from 1500 to around 5000. On 26 April 2018, Revolut announced that it had raised a further $250 million in a funding round led by Hong Kong-based DST Global, reaching a total valuation of $1.8 billion and thus becoming a unicorn.[16] DST Global was founded by Yuri Milner, who has been backed by the Kremlin in his previous investments.

In December 2018, Revolut secured a Challenger bank licence from European Central Bank, facilitated by the Bank of Lithuania, authorising it to accept deposits and offer consumer credits, but not to provide investment services. At the same time, an Electronic Money Institution licence was also issued by the Bank of Lithuania. In March 2019, the company's chief financial officer Peter Higgins resigned. TechCrunch reported that he had quit following allegations of compliance lapses, however Revolut denied that he had left for these reasons. In July 2019, Revolut launched commission-free stock trading in New York Stock Exchange and NASDAQ, initially for customers in its Metal plan. This was subsequently made available to all users.

In August 2019, the company announced several hires with experience in traditional banking, including Wolfgang Bardorf, formerly executive director at Goldman Sachs and the global head of liquidity models and methodologies at Deutsche Bank, Philip Doyle, previously head of financial crime at ClearBank and fraud prevention manager at Visa, and Stefan Wille, previously senior vice-president of finance at N26 and corporate finance manager at Credit Suisse.

In February 2020, Revolut completed a funding round that more than tripled its value, valuing the company at £4.2 billion and becoming the United Kingdom's most valuable financial technology startup. In August 2020, Revolut launched its financial app in Japan. In November 2020, Revolut became profitable. In January 2021, the company announced that it had applied for a UK banking licence. In March 2021, Revolut applied for a bank charter in the US via applications with the FDIC and the California Department of Financial Protection. In July 2021, Revolut raised $800 million from investors, including SoftBank Group, Tiger Global Management at a $33 billion valuation.

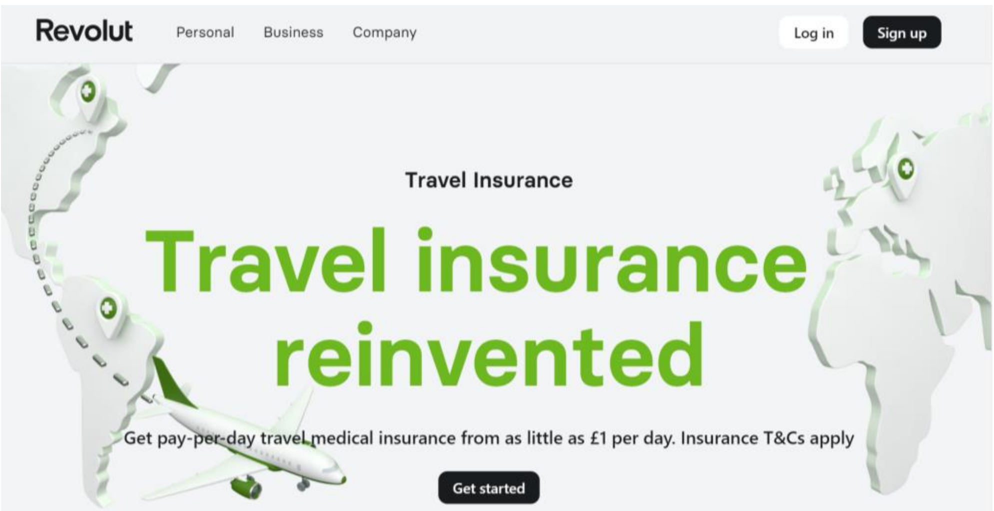
Revolut Growth till 2020:



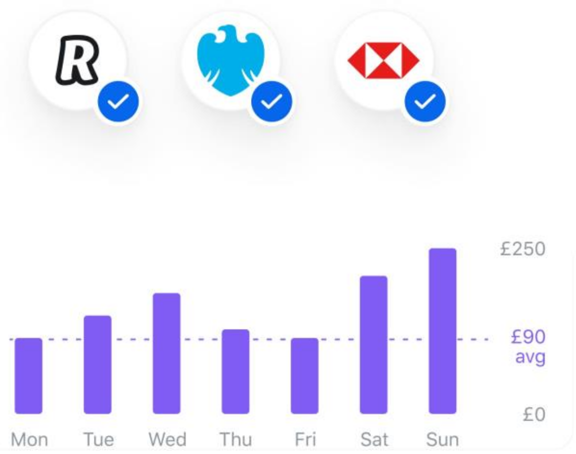
Areas of Disrupting:

- **Payments:** Payments have greatly evolved in the last several years. This section examines the key trends shaping the industry and the uncertain path forward. The first half of this decade saw rapid change in the payments landscape, with the global entry of several innovative forces that raised fundamental questions about the future of payments. With the help of Revolut Card we can pay contactless by Apple Pay or GPay. The major forces impacting payments are:

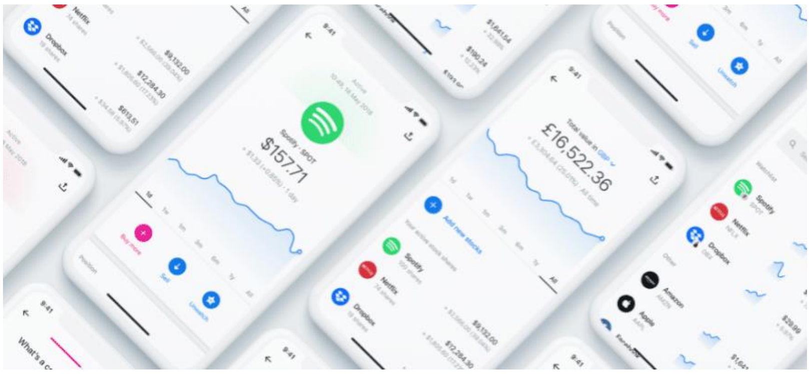
- **Insurance:** Insurers are challenged by the rise of "InsurTechs" and a structural transformation of their customer base, forcing them to adopt to new technologies more quickly. Revolut's travel insurance is designed to give you peace of mind on your travels by offering you the best medical and dental cover at the lowest prices. Our Pay-per-Day insurance is the first of its kind by using geolocation to only cover you for the days you are abroad, starting at less than £1 per day. Not only this, but we also let you edit the insurance to suit your needs: easily add companions or winter sports coverage, even after you've landed.



- **Open Banking:** With Revolut's Open Banking, you can connect your external bank accounts (and some accounts with providers who aren't banks) to Revolut and see everything in one place. This means you can see your Revolut balances and transactions alongside your external bank account transactions directly in Revolut and set budgeting controls for both. The goal of Open Banking is to give you more control over your bank account. Specifically, to give you the ability to share your transaction data with other banks and third parties, in ways that benefit you. Open Banking relies on something called an API. Short for Application Programming Interface, APIs make it possible for the software at one company to access information from the software at another company.



- **Investment/Wealth Management:** Investment management has greatly evolved in the last several years.With the help of Revolut Wealth now one can invest and trade in Stocks, Crypto, Commodities and Vaults. You can buy more than 800 US stocks, gold, silver, and some currencies with Revolut. Revolut's trading platform is an extension of its existing mobile banking app.



Recommendations for Future Development (opportunities and threats for the firm):

Revolut Opportunities:

A key opportunity for Revolut is further expansion into areas outside of Europe. A particular opportunity could be in Hong Kong, where retail banking is very profitable and there is a lot of potential for digital-only banks. Another key opportunity is the 18-27 age bracket, as 40% are choosing to use a mobile banking app as their primary bank, rather than a more well-known brand. Another market that could be a good opportunity for Revolut is within the 18-27 age group, but specifically travellers within this age bracket. This is because the company have a few options, such as currency exchange, which would appeal to travellers.

Revolut Threats:

Traditional banks are trying to keep up with digital only by investing in newer technology, e.g Lloyds have revamped their banking app, including introduction of a savings pot, and instant payment notifications. Competitors Monzo and Starling offer some interest with certain account criteria and partners e.g Monzo has partnered with Osk North and now offers 1% with an instant access account, with a minimum initial deposit of £500, whereas Revolut offer no interest at all. Competitors Monzo and Starling also offer unlimited ATM withdrawals, whereas Revolut only allow up to £200 free.

Future Recommendations:

1. Partnership with FinTech Start-up's: Partnership is one of the options how incumbent financial institutions can take advantage of financial technology advancements and shifts in regulation. These partnerships could be formed with fintech start-ups or large tech companies or both. Although partnerships between fintech start-ups and traditional banks in the past have been unsuccessful due to the banks' long lead times, inflexibility and similar constrains, we argue that such partnerships can be an effective option if banks follow the recommendation regarding cultural change presented before.

2. Partnership with Large Tech Companies: the liberalization of banking industry thought the initiatives of "open banking" via PSD2 is expected to create opportunities for large tech companies. In the "Near Future" subsection about large tech companies above, we presented several future scenarios for these companies and argued that there is little chance that large tech firms would take a passive role in the light of PSD2. As in the case of partnerships with fintech start-ups, incumbent financial institutions can bring same strengths into the partnerships with large tech companies, while big tech companies, such as Google, Facebook, or Amazon, in addition to high capabilities of generating ideas, offering user friendly solutions and effectively analysing data, can offer the traditional banks access to a large customer base through different channels. Since majority of banks' customers are already using the services of large techs, banks could benefit from partnerships by promoting enhanced experience to their customers.

3. Acquisition of Fintech Start-up's: In general, the acquisition is a way of gaining control over the assets and decision-making power of other companies. In the case of banks, we would expect that they could fully acquire selected fintech start-ups and therefore gain control over them. Given that incumbent financial institutions followed our recommendation, they would be able to quickly integrate the acquired start-up and speed up the innovation process. Such option would also allow to obtain new resources and competences that could be challenging to gain otherwise. Fintech start-ups already have people who are experts in their fields and competences to drive innovative processes. Additionally, from the profit generation point of view, even if the acquired entity did not contribute to increased profits, it would potentially help to keep the banks' customers from using other fintech companies' solutions and avoid the drop of revenues associated to that.

4. In-house Innovation: The last option that banks have is in-house innovations. As previously discussed, historically incumbent financial institutions struggled with in-house innovations because of strict boundaries in operations, lack of freedom and limited resources allocated to disruptive innovations. Therefore, for this option to be feasible, we need to emphasize the necessity of implementing the recommendation of changing corporate culture and values provided before. The cultural change is a critical point here, Page 109 of 137 as it would change the approach and capabilities of the banks and prevent them from falling into the same trap repeatedly.

5. Improvement in Services: Customer willingness to switch away from incumbents has been overestimated. Customer switching costs are high, and new innovations are often not sufficiently material to warrant the shift to a new provider, especially as incumbents adapt.

   FinTech's have struggled to create new infrastructure and establish new financial services ecosystems, such as alternative payment rails or alternative capital markets. They have been much more successful in making improvements within traditional ecosystems and infrastructure.

Summary:

In this Business Report I have taken a FinTech firm name Revolut, and after analysis all its data from its background, history, how they raise funds for their business, what all new inventions and technology they brought in their banking system and how they are disrupting the banking today. Revolut have seized the initiative – defining the direction, shape and pace of innovation across almost every subsector of financial services – and have succeeded as both stand-alone businesses and crucial parts of financial value chains. They have reshaped customer expectations, setting new and higher bars for user experience. Through innovations like rapid loan adjudication fintech's have shown that the customer experience bar set by large technology firms, such as Apple and Google, can be met in financial services. Revolut have materially changed the basis of competition in financial services but have not yet materially changed the competitive landscape.