

Bank Towards Future

Consulting Report for Xinja



Table of Contents

1

Environment Scanning

External/Internal/Conclusion

2

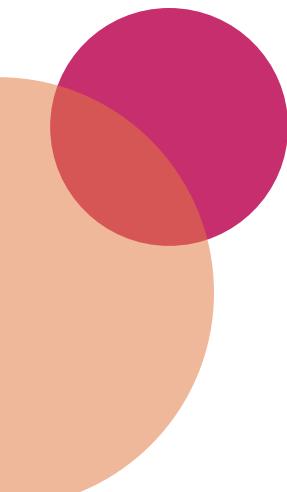
Strategies

Alliance/Portfolio/Stability

3

Recommendation

Evaluation/New Business Model/IT as Enablers



Environment Scanning

External Environment Scanning - PESTEL

Political

Due to COVID-19, RBA announced the policies to lower the cash rate and interest rate.



Economy

Restrictions and lockdown have led to a significant global economic contraction. The weakness in aggregate demand and low confidence in investment has occurred.



Social

The lockdown and activity restrictions in Australia have switch people's daily activities to online - people spent more time in apps.



Technology

More fintech is available to change the landscape of payment and transaction more efficiently and securely, including blockchain, B2B payments, and Digital Currency Electronic Payment (DCEP).



Environment

After the 2019–20 Australian bushfire season, global warming and climate change raise more concern in society. To reduce damage to the environment, companies need to operate in an environmentally friendly and energy-efficient manner.



Legal

Banking as a prudent business several restrictions and licenses are needed. Due to COVID-19, borders are closed, and due diligence will be delayed.



Environment Scanning

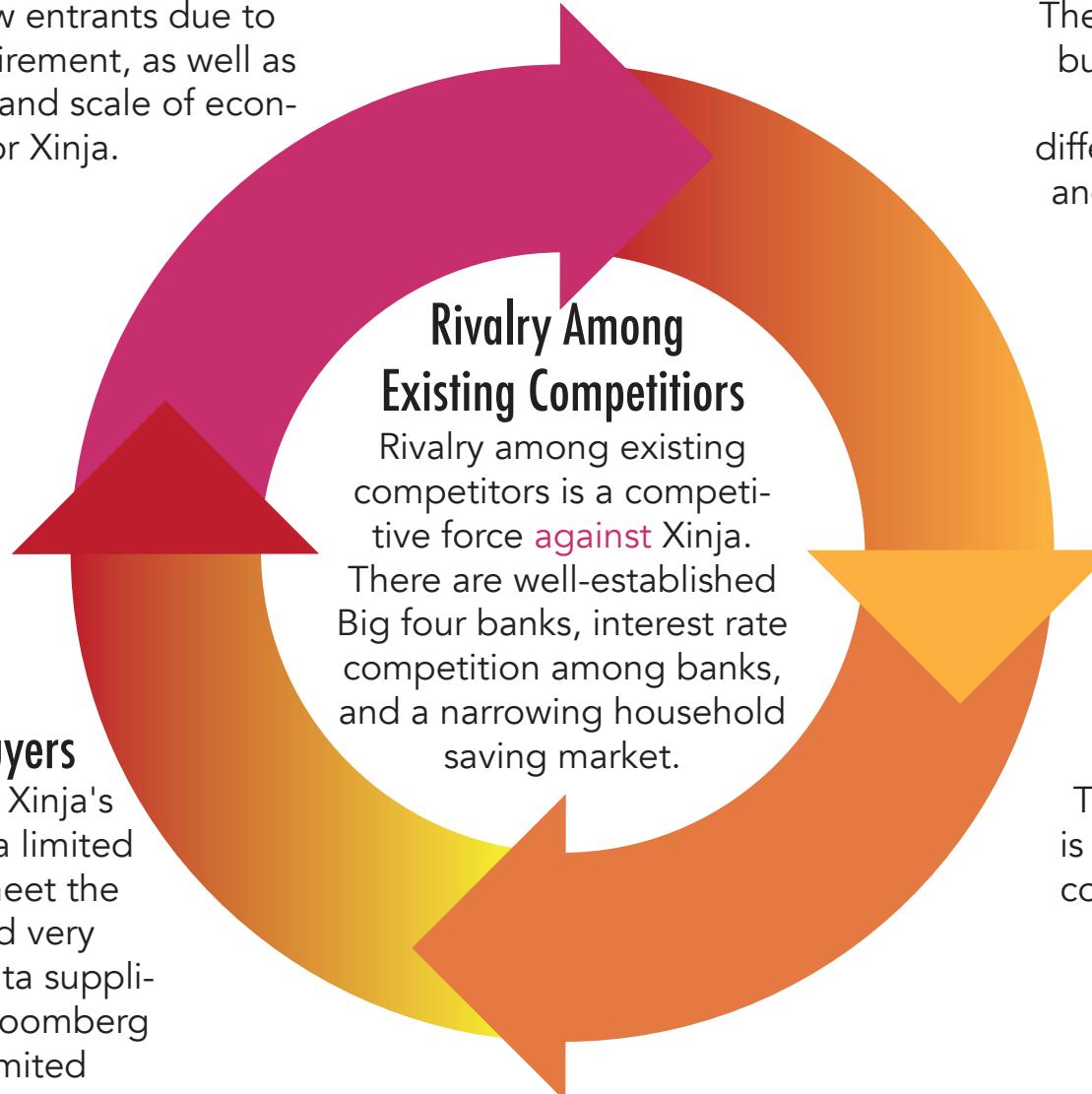
External Environment Scanning - Five Forces

Threat of New Entrants

There is **low** threat of new entrants due to capital and licenses requirement, as well as IT capability, reputation, and scale of economy. This power works for Xinja.

Bargaining Power of Buyers

The bargaining power of Xinja's suppliers is **high** as only a limited number of IT suppliers meet the security requirements and very few financial real-time data suppliers do as well, such as Bloomberg and Reuters, as well as limited marketing channels.



Bargaining Power of Suppliers

There is **high** bargaining power of buyers against Xinja due to standardized product with limited differentiation, low switching cost, and easy access to product information.

Threat of Substitute Products

The threat of substitute products is **low** for Xinja because of limited conservative wealth management tools in the market.

Environment Scanning

External Environment Scanning - Competitor Analysis

Transformer
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Current strategy

Releasing products for the niche market while limiting operation cost, so that avoid direct competition with traditional banks.

Objectives

(1) Lower operation cost, (2) More customers attracted from target market, (3) Increased incomes.

Capabilities

(1) IT infrastructures, (2) Well-designed applications, (3) Low operation costs, (4) Serve a niche market that has been ignored by big traditional banks.

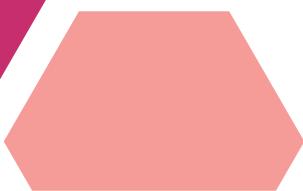
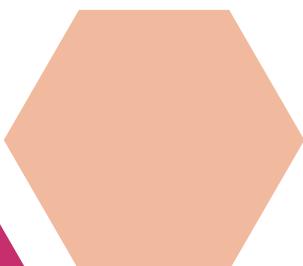
Rival's likely strategic moves:

- (1) Horizontal growth: provide more value to current customer segment via new product, build customer loyalty, and optimize the business model to extract more profits from them.
- (2) Vertical growth: release new products or current products for new niche market that been ignored, unserved to develop new market.



Traditional banking is becoming *less profitable* and *more competitive* due to the low cash rates and interest rates and economic contraction caused by COVID-19.

Under these circumstances, direct competition with large traditional banks is *not feasible*. Adopting *novel and new technologies* and developing *new niche markets* became a wise movement.



-- Yufei Zhu

Chief Operation Officer of Transformer

Environment Scanning

Internal Environment Scanning - Value Chain Analysis

Bank Infrastructure

Xinja has already got the license and organised legal management and finance management. They have an encouraging culture, and employees can communicate with each other easily. The company is well organised, and the main strategies are to use low interest to attract customers and spread the brand.

Human Resource Management

Xinja has excellent human resource management. They have an experienced team, good performance management and a compensation system.

Product & Technological Development

Xinja focused on producing and process design and already created its apps. They put the customer service in the first place.

Procurement

Xinja provides customers with the best quality products and services.

Fund Raising

Xinja raised funds through public crowdfunding and investment globally.

Support Activities	Bank Infrastructure: License, Legal, Financial management, Organisation, Culture, Strategies				
	Human Resource management: Personal, Experience team, Training, Recruiting				
	Product & Technological Development: Product and process design, R&D, Innovation, Customer first				
	Procurement: Supplier management				
Primary Activities	Fund Raising Public crowdfunding Investment	Market Advertising Branding	Sales and Operation Multichannel Market expansion Product expansion Sales management	Service Customer service Business consultation Transaction processing Installation	Risk Management Management Market risk Credit risk Liquid risk Legal risk Financial risk Strategy risk

Profit Margin

Market

Xinja used advertising and branding to occupy the market.

Sales and Operation

Xinja used multichannel and sales management for market and products expansion.

Service

Xinja offers excellent customer service and instant consultation to bring them a good user experience.

Risk Management

Xinja has risk management to prevent their business.

Environment Scanning

Internal Environment Scanning - VRIO Analysis

Xinja has **excellent work environment and culture**. They have experienced team with rich banking background. The employees are rewarded every quarter, and the bonus is completely decided by the employees themselves. Everyone is encouraged to speak his or her own ideas. They adhere to the team spirit and customer first philosophy.

Secondly, they have ability to **develop new technology** and have already adopted the far more advanced technology. For example, Xinja have excellent **data analysis capacity** which can process information in real time effectively. In addition to this, they also have **advanced information infrastructure** such as cloud native architecture and multi-cloud network. These provide advantage competence and **innovation**. Thus, they have ability to operate the business and provide service at a lower cost. And also service the customers in a better way.

	Value	Rareness	Imitability	Organized	Tangible / Intangible	Heterogeneous/ Immobile
Mobile App	Yes	No	No	Yes	Tangible	Heterogeneous
Data Analysis Capacity	Yes	Yes	Yes	Yes	Tangible	Heterogeneous
Information Infrastructure	Yes	Yes	Yes	Yes	Tangible & Intangible	Heterogeneous & Immobile
Enviroment and Culture	Yes	Yes	Yes	Yes	Intangible	Immobile
Price-advantage	Yes	Yes	Yes	Yes	Intangible	Immobile
Customer service	Yes	No	No	No	Intangible	Immobile
Trust	Yes	No	No	No	Intangible	Immobile
Advanced digital products	Yes	Yes	No	No	Tangible	Heterogeneous
Money Resource	Yes	Yes	Yes	No	Tangible	Immobile
Innovation	Yes	Yes	Yes	Yes	Intangible	Heterogeneous



In the banking industry, new companies face high-level barriers to entry. The Big Four banks have excellent customer service, brand recognition and a variety of businesses. Many dominant banks have invested billions of dollars in technology, but there is no obvious return. Existing neobanks serve **niche markets** neglected by the big traditional banks. Unlike other neobanks, Xinja aimed to be a full service digital retail bank, resulting in the need for investment in developing different products. Existing products, such as saving accounts, need to offer high-interest rates to customers, which has led to huge expenses for Xinja. However, as a result of COVID-19, *raising funds is becoming more complex*.

Xinja has a **strong banking team** and **develops new technologies** to provide services at **a lower cost**. However, Xinja *lacks good financial management* and *has some issues on the apps*. Xinja needs to solve these problems in an efficient way.



-- Yidan Wang

Lead Partner for Transformer FSI Advisory Services

Alliance Strategy



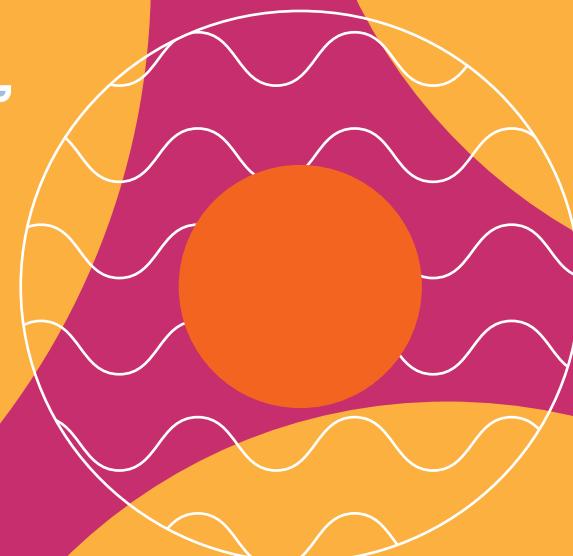
Joint Venture



Shared Technology

Share IT technologies with the banks that plan to carry out digital transformation.

Try to find a bank and make a joint venture with them.



Consulting Services

Provide consulting services for traditional banks and other financial institutions.

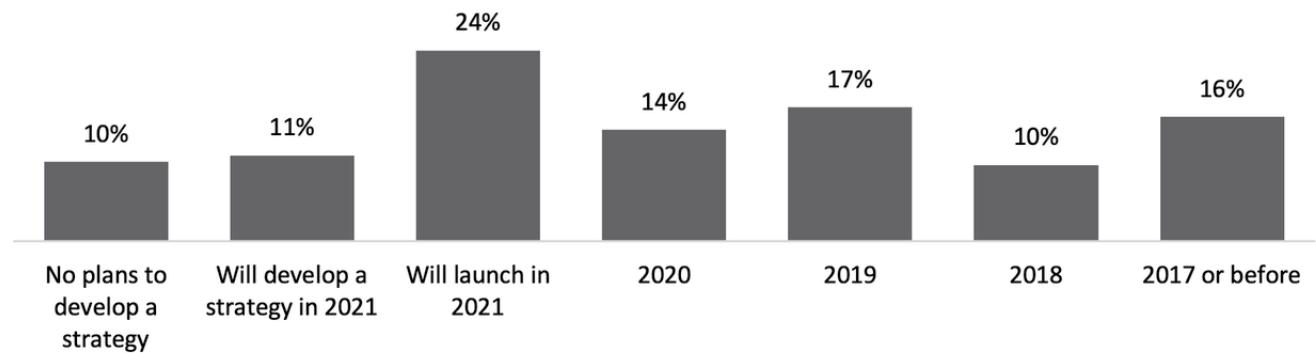
Strategies

Strategic Alliances

In the case of COVID-19, raising funds has become more challenging than ever. It is expected that funds from Dubai World Investments may not be received on time. According to a neobank auditor, Xinja relied greatly on raising additional funds to keep daily operation last month. The emergency is to safeguard the company's balance sheet. We should consider how to generate revenue to prevent staff layoffs and cover the expenditure of the developing market.

A study from Cornerstone Advisors stated that about 45% of the banks hadn't started the digital transformation until now. Also, many dominant banks have invested multibillion dollars in technology but fail to maximize the return.

When did your institution launch its digital transformation strategy?



CORNERSTONE
ADVISORS

Source: Cornerstone Advisors survey of 260 senior financial institution executives, Q4 2020

@rshevlin

Source: Cornerstone Advisors

The problem with banks' legacy systems is the amount of maintenance and the lack of capacity to support them in going truly digital to compete with new challengers. They need to bring their existing applications to the cloud and to begin planning a whole new data strategy for the entire organisation. Some banks have already started working with Fintech companies to launch their platforms.

Strategies

Strategic Alliances

S Strengths
Practices of innovative IT infrastructure;
Data-driven business;
Agile business culture;

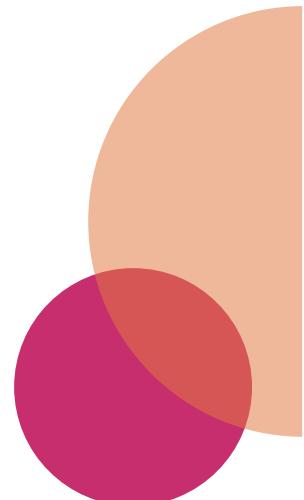
O Opportunities
Share technology with financial institutions;
Joint venture with banks;
Consulting services;

W Weakness
Inability to raise funds;
Poor financial performance;

T Threats
Contradict to Xinja's vision;
Fail to conduct a new business;
Lost competitive advantages;

The IT technology in Xinja is not a differentiator among neobanks, but a powerful tool to significantly improve the efficiency of running a bank comparing to traditional banks. Without the burden of maintaining a legacy system, it opens up possibilities to continuously create more customers' values. The strength of Xinja is the weakness of traditional banks, which want digital transformations but without a clear, reliable and actionable guideline to approach. Therefore, building strategic alliance relationships with traditional banks or financial institutions is suggested. It can mutually benefits both Xinja and the alliances.

Potential Strategy
- Share technology with financial institutions
- Joint venture with banks
- Consulting services



Portfolio Strategy



Cryptocurrency Payment

Support Cryptocurrency payment as the first mover and narrow the business model to niche market

Digital Wallet

Extend to eAUD and become the first eAUD-compatible payment solution. Also provide B2B payment services for SMEs



Bank-as-a-Service

Leverage the IT capability to touch more clients via KPIs and build a closed loop of MLOps



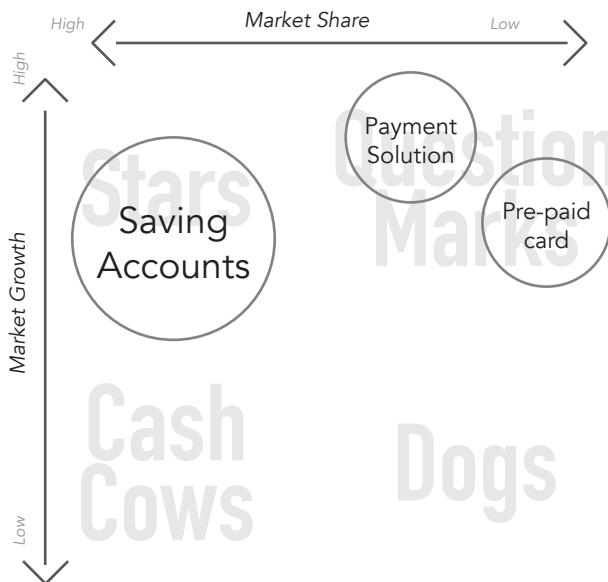
Strategies

Portfolio Strategy

To better diversify the company's products, we conduct the portfolio analysis on Xinja's current business units, which can enlighten the company about the future trend and manage the overall strategy accordingly.

Till now, Xinja has products that include,

- Pre-paid card
- Saving account
- Personal Loan (To be launched)
- Payment Solution



The prepaid card market in Australia is proliferating fast, at over 10% per annum, particularly in niche markets. This leaves room for Xinja to consider differentiating its pre-paid card products and gaining growth.

Due to COVID-19, Australians tend to save their money in banks instead of spending, urging Xinja to launch attractive products and gain new users.

Payment solution is the hottest topic within the Fintech investment, which attracts 105.9 billion US dollars in 2019 with a 102% annual growth rate. Underlying reasons are the lack of sophisticated B2B payment solution and the emergency of the ambient bank or Bank-as-a-Service. Representative companies include eNet (B2B international payment) and Stripe (Bank-as-a-Service).

While the growth rate of investments in cryptocurrencies is declining, Xinja can see this trend as a sign that cryptocurrencies have past the hype stage. COVID-19 has accelerated the pace at which central banks are launching official digital currencies.

This growth is consistent with the innovation initiative of launching central bank digital currency (CBDC) from the Bank of International Settlement in 2021-2022. RBA has also tested the eAUD from the beginning of 2020.

Strategies

Portfolio Strategy

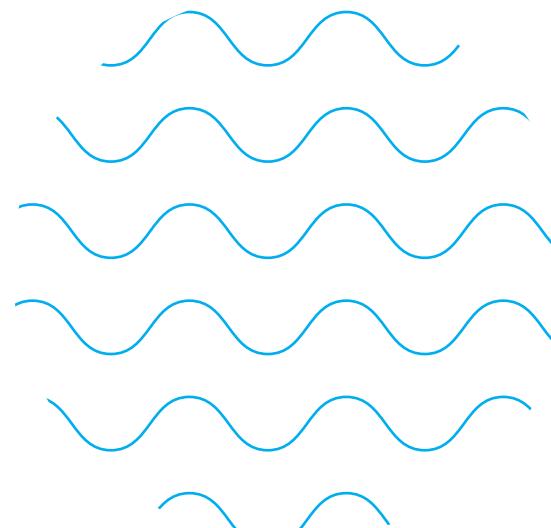
Based on the results of environmental scanning, we have categorized Pre-paid Cards and Payment Solutions as problem markets, while Savings Accounts are in the Star quadrant. However, given that Xinja has yet to launch its loan product, the board should give full consideration to their actions on savings accounts. Only with a potent combination of keeping tabs and loan products can Xinja have a stable cash cow product.

These observations justify that a digital wallet is a good way of

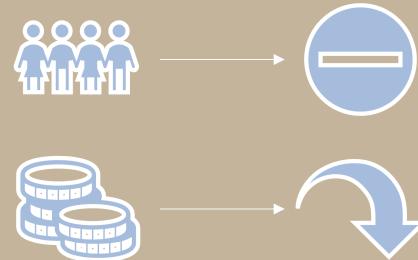
- Utilizing the current savings
- Attracting another round of funding
- Entering a new promising market
- Leveraging the IT advantages.

Potential Strategy

- Cryptocurrency Payment
- eAUD-compatible digital wallet
- Bank-as-a-Service



Stability Strategy



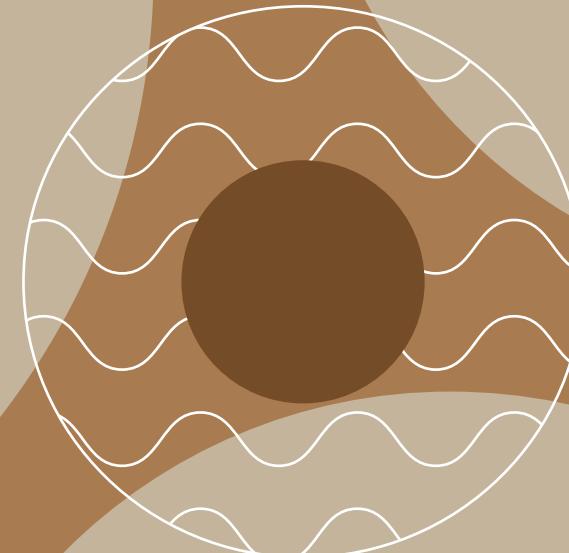
Pause with Caution

Temporarily suspend new customers from the savings account and reduce expenses by lowering interest until the company gains new investments.



Address Current Issues

Addressing security and usability issues immediately.



Improve Software Systems

Increase routine maintenance and upgrades of software systems.



Strategies

Stability Strategy

The household savings market is becoming narrower due to the impact of the COVID-19. Based on the above analysis of competition between existing competitors, Xinja is experiencing difficulties in acquiring new customers and developing new markets. In addition, the US\$433 million investment already secured from Dubai Investments has been "unexpectedly delayed" by COVID-19. As a result, the company may be short of funds, so investing funds in new products to promote increased deposits from customers may become very difficult. Therefore, a stability strategy is highly proposed.

First of all, high interest rates on deposit accounts have left the company facing a massive financial crisis, so Xinja should temporarily pause new customers of saving account and reduce the expenditure by decreasing the interest rate a little.

After the company gets the investment, it can resume the application, raise interest rate of saving accounts again and continue growth strategy may be better.

In addition, at present, some organizations report that Xinja has security and usability problems. After the interest rate is lowered, in order to retain existing customers, these problems should be solved to improve the user experience.

In order to address security issues, improvements in hardware construction are needed. For example, the network architecture should be reasonably laid out, the performance of security products should be improved, and network management and security software should be upgraded in a timely manner.

Secondly, in terms of management personnel, it is necessary to clarify the responsibilities of leaders in checking and supervising network security, establish various network security management and prevention systems, and strengthen the daily operation and management of employees across the company.

Moreover, to address usability issues, Xinja should redesign and develop the mobile app, incorporate current user feedback on the app and reference other neobanks to make it user-friendly. At the same time, APP features such as money management tools and savings vault should be added so that the functions of mobile apps are not inferior to those of other banks.



Potential Strategy

- Temporarily suspend new customers from the savings account and reduce expenses by reducing interest rate until the company gain new investments
- Addressing security and usability issues immediately
- Increase routine maintenance and upgrades of software systems

Strategies

Strategies Evaluation

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	Increase Competitive Advantage	Enhance Reputation	Generate Revenue	Attract Investment	Feasibility (Finance & Skills)	Score
Alliance	✗	✓	✓	✓	?	2
Portfolio	✓	✓	?	✓	?	3
Stability	?	✓	?	?	✓	2

✓ 1 point ✗ -1 point ? 0 point

We break down the evaluation of the strategies into a set of dimensions, considering the following aspects:

Suitability

Whether a strategy utilises the advantages and resources of Xinja.

Acceptability

Whether a strategy benefits the stakeholders of Xinja.

Feasibility

Whether a strategy is financially and technically feasible for Xinja.

Portfolio strategy has the highest score out of the three proposed strategies. It utilises the resources and would potentially increase the competitive advantages of Xinja among rivals. Although might not generate income directly, it would increase the potential to attract investments. The implementation of the portfolio strategy requires Xinja to raise funds and therefore the feasibility remains uncertain.

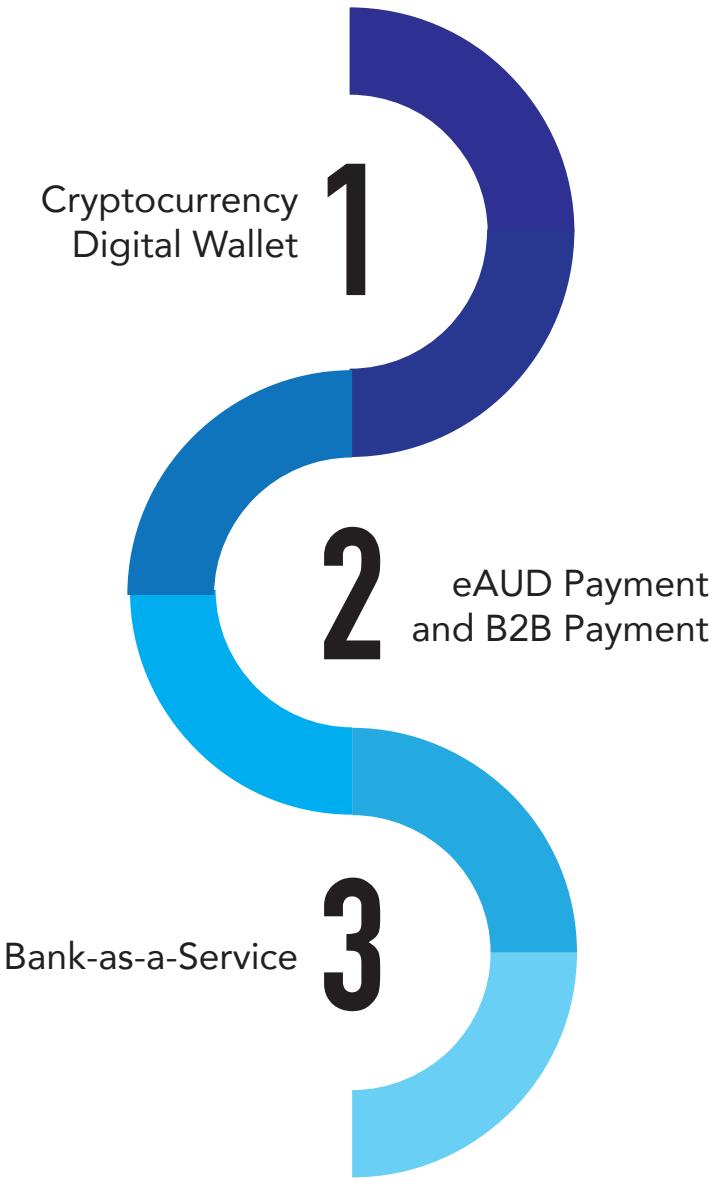
Alliance strategy could generate income and attract investment in a short time but might decrease the competitive advantages in the long run. Also, the shift to developing consultant services or forming alliances might change the visions and culture of Xinja.

Stability strategy focuses on improving current products incrementally. This strategy might neither bring income nor investment for Xinja and could lose its competitive advantages among rivals in the long term.

In conclusion, **portfolio strategy is the most feasible one for Xinja**. Detailed recommendations will be discussed in the next section.

Strategies

Strategies Recommendation - Business Model



In short, the strategies recommendation for Xinja includes two steps. The first step is to survive the COVID-19 period, and the second step is to grow to be a leading Fintech in a niche market, i.e., a payment solution provider.

The detailed roadmap includes:

- 1/ Reduce the interest rate to slow the burning rate of cash flow.
- 2/ Gradually support cryptocurrency payment as an early investment to enter the market and arouse another round of fund.
- 3/ Easily extend to eAUD when RBA launched CBDC to the public and be the first eAUD-compatible digital wallet.
- 4/ Focus on B2B payment, especially for SMEs with low surcharge, low exchange-fee, instant payment and zero-trust strategies.
- 5/ Leverage the IT capabilities to provide Bank-as-a-Services, including payment, billings, etc., which helps SMEs meet the regulation requirements and secure payments via Xinja's AI risk management algorithms. The data generated by the APIs are then fed and improve the model performance, which creates a closed-loop of MLOps.

Strategies

Strategies Recommendation - IT as Enablers

Cryptocurrency Payment

All cryptocurrency payment related functions need to have the attribute of efficiency and security - security infrastructure is required to ensure safe transaction and store. In addition to cryptocurrency build-in transaction function (the network), there are different solutions and interfaces available from cryptocurrency exchange (Binance and Coinbase). Further, other blockchain enabled technology such as Decentralized finance also enable these functions.

Central Bank Digital Currency, eAUD

Based on blockchain technology, eAUD will be the digital version of AUD that builds a completer and more convenient financial system. Unlike Bitcoin, eAUD is a stable token that the price will align to AUD.

After enabled Cryptocurrency payment and transaction functions, additional technology requirements to enable eAUD related function will be low (i.e. call the interfaces provided by RBA). Additionally, the mature cloud computing technology and regulation modules also are enablers of CBDC eAUD.

B2B Payment

It is an integrated payment method that enables efficient and secure transactions between commercial organizations. The critical technical requirement is full integration with the customer entity's existing payment system. The zero trust architecture associated with ID validation technology enable the secure of the whole system.

Bank-as-a-Service Solution

Delivering flexible banking services over the network and reducing operational costs. The technology stack includes cloud computing infrastructure, application development and security technologies, and the Machine Learning Operations (MLOps) and data lake technology that enable more powerful data analytics capability. The critical issue in transferring legacy banks to banking services is the variety of legacy systems with different operating systems and programming languages. In addition, an Automated Risk Management system also is essential to provide a more efficient risk management process for BaaS solution.



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