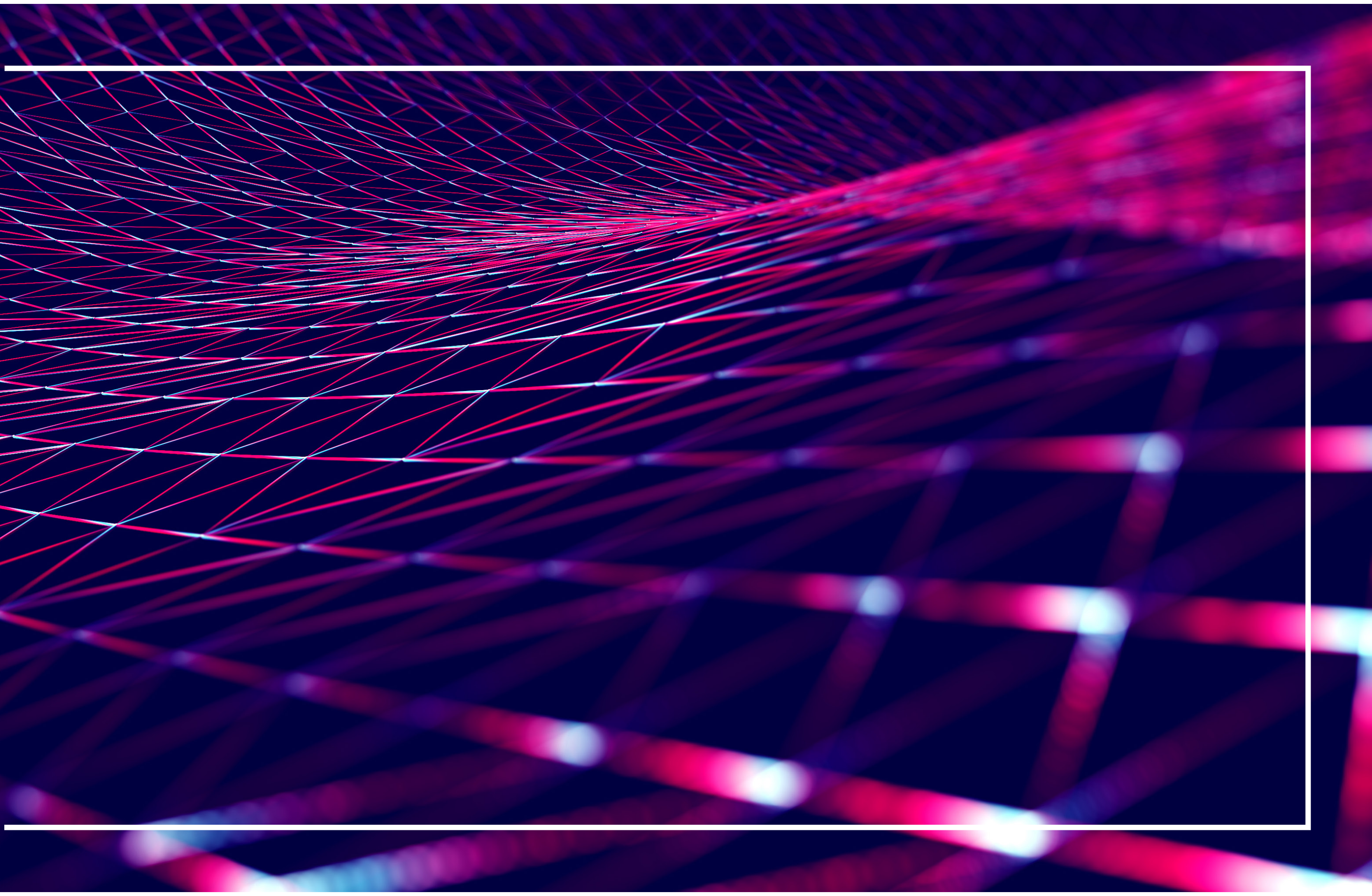
# NEO BANKS ARE HERE TO STAY

## HOW WILL THE BIG PLAYERS KEEP UP?



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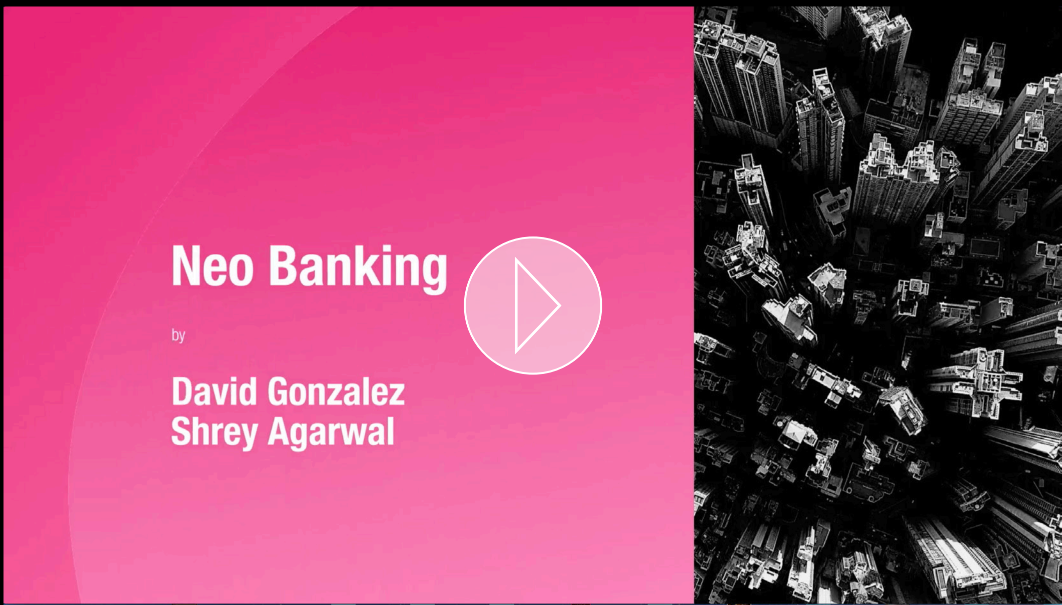


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**In Capco's August report, Can't Beat 'Em, Join 'Em?: The Rise of the Neo Bank, we reported that Monzo, the UK-based neo bank offering current accounts, had hit 500,000 customers; and that they, along with Starling Bank, had just come at the top of a customer satisfaction poll for 'The Best British Bank'[1]; that N26, the European challenger bank, was still described as a newcomer.**

**Just a few months later, the growth from these new market players has been astounding. Indeed, Starling Bank recently announced that they have opened 210,000 current accounts[2]; N26, one million accounts, that's up 500,000 from just nine months ago[3] and Monzo: 1,005,489 customers[4], doubled from 500'000 in just 6 months. If you weren't paying attention to the neo banks before, you are now.**

# BILLBOARDS: NOT A REQUIREMENT

There is certainly a hype around fintech products that extends far beyond any excitement traditional products have managed to generate. Can anyone remember a financial product so universally recommended as Monzo, with their virtual queue and golden tickets? On four separate occasions, as I raised their distinct highlighter pink/orange card to pay, I was pulled into Monzo conversations by the cashier. Three were waiting to move forwards in the virtual queue, the other just liked the card and wanted to know more. Since when were financial products the new over-the-counter small talk?

It is little surprise that today 80 percent of Monzo's customer growth comes from word of mouth referrals.[5] That's impressive. Their approach is quiet, the product is self-promoting, with no advertising.

But there is also great success in using a more brash approach to product promotion. Transferwise, who focus on cheap and fast FX payments, run colossal shock campaigns across financial and political landmarks. You can regularly catch the CEOs running around in their underwear across Bank, Wall Street or UK parliament. When fully clothed, they are busy becoming the first non-bank to be included in the Bank of England's faster payments scheme, currently boasting over three million customers[6] and with some exciting new partnerships with the likes of N26, Monzo and more recently BPCE, France's second largest banking group.

Billboards, TV adverts, tube adverts, bus adverts, radio adverts, magazine adverts, urinal adverts. It's a competitive space to say least. Alternative approaches to advertising are winning the consumer over, so don't just think billboards!

**REFERENCES**

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2. https://www.starlingbank.com/investors/2018/letter-from-ceo/
3. https://techcrunch.com/2018/06/04/n26-now-has-1-million-customers/
4. https://monzo.com/
5. https://monzo.com/annual-report/2018/
6. https://transferwise.com/

# LET'S TALK ABOUT THE WHY

It's not only the queues and the hype, the big demonstrations and controversial CEOs, those are all supporting a fundamental, core success factor: user-centric products. Revolut, a global challenger offering a financial services universe that includes current accounts, loans, investments, insurance and cryptos, claim a £0 marketing budget and have just reached two million users[7]. They say their success is because "we focus our time and resources on building a kick-ass app that has virality written all over it. (…) our users are our marketing budget"[8]. This is a big difference to the traditional approach of product-centric service users are used to.

The effect of a user-centric model is remarkably complex. On the surface it's delivering the highest value in the shortest time - already a plus – but to get there, you open yourself to your users' feedback, criticisms and tinkering. Challengers offer open APIs, host hackathons and encourage feedback. The product is directed by the user; it develops with their needs and it encompasses the entire customer experience. Not only are the financial needs met, but the aesthetics, packaging and interactions are all in-line with customer feedback, or are heading in the right direction. These outlier requirements are often overlooked by today's bigger players, but they hold a lot of value with today's user.

The next point can't be stressed enough. If there's anything you should remember from this article, it's this: **the most powerful effect of a user-centric service is that the user feels responsible for the product.** Feedback loops are woven into the experience, and as you start to feed back, especially if you notice changes in-line with your response, the product becomes a little bit of your idea. Now it's a little bit of your idea, you are proud of the product, you want to show it off to your friends, you'll tell your cashiers all about it and importantly, you will voice your unhappiness to the company much sooner than you'll jump ship to a competitor - because you know they'll listen.

Why isn't everyone doing this? The main problem is size. Agile delivery is key to keeping up in the user-centric world. Fail fast, get feedback, build better, fail again, feedback, build. The cycle is demanding of flat hierarchies, and it's killed by bureaucracy. Our financial institutions today can't keep up with the rate of change and the finance world are yet to have a working example of an agile framework operating at scale. It's not all over though!

**REFERENCES**

7 https://www.cnbc.com/2018/06/07/revolut-has-2-million-users-to-launch-commission-free-trading-service.html
8 Revolut blog, November 2017

# EXIT THE MONOLITH


Users expectations of customer service and access to their services are changing, fintechs are dominating the mobile-first banking space, they're reducing costs, they're looking into new tech to speed up processes and make services cheap and easy. They are redefining basic payments. FICO analysts ran a questionnaire for 18-26 year olds on whether they would use Venmo, Paypal and other alternative simple payment methods over traditional methods; 52 percent of millennials now prefer more convenient fintech solutions for basic payments[9].

So, they're great at basic, but what about complex? Experience and capacity are key to providing banking products to large companies, to high-net worth individuals and to charities. More so than capability is the underlying trust factor – a big problem for our neo banks today. Big banks hold trust with their clients, they hold the SMEs and the know-how to tackle complex banking. Unfortunately, however, the trust and the know-how has been built on an infrastructure that can't keep up with the agile, UX-led platforms challengers are pumping out.

We should really start to consider breaking up monolithic architectures to the more, unconstrained architecture structures like microservices. At the highest level, microservices are a variant of the service-oriented architectural pattern, structuring applications as a collection of loosely coupled services. Put simply, you decentralise the features and make them fully operational on their own so that there is less dependency across the 'bundle' of services. Microservices can be used to help alleviate some of the most common issues faced by banking institutions (time to market, scaling, data ownership, dealing with legacy etc). Traditional banking monoliths have become increasingly difficult to manage, maintain and extend as banks try to improve their digital offerings in the face of their leaner competition. Worried about scalability? Netflix have been running a microservice models since 2009, since then we've seen the likes of Amazon, Google, IBM, LinkedIn, Nike, Nordstrom, Orbitz, PayPal, Spotify, Target, Twitter, and many more move to this model. Give yourselves the chance to showcase your defining capabilities competitively: move on to microservices, keep up with the updates.

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9 https://www.fico.com/millennial-quiz/pdf/fico-millennial-insight-report.pdf

# START FROM SCRATCH, START A START-UP

Brands are important. Brands build trust, they set expectations and represent ours and others' experiences with a company. So, what if your brand wasn't working for you? What if you want to do something new? Address a new client base? Make a new brand. Not only can the logo change, but you can give your new brand a start-up infrastructure. Use all that expertise under a fresh face and some new legs.

Yolt has been hot on the heels of open banking and PSD2 and is a nice little tool that consolidates multiple debit and credit accounts into one, driving personalised insights off your consolidated data. Since their launch in June 2017, they've amassed 250,000[10] users. Most of this success is attributed to their in-the-know proactivity to upcoming regulations. Who are Yolt? Yolt are ING.

It's a great example of leveraging the banking expertise, here in regulations, and channelling that into a new product to be used by a different generation. Yolt may have started within ING's office in the Netherlands but they now operate out of London. They have their own building, their own logo and their own CEO, yet they are still owned by ING. The idea was born and nurtured in ING; but wasn't going to grow there. Instead of stifling progress they gave them a start-up environment to develop in, with the financial backing of a multi-national bank.

A project closer to home for Capco: Next Bank, a new digital-only South American bank aimed at millennials. The bank is the new face for Bradesco, one of the biggest banks in Brazil. They wanted to develop a brand focused around the lifestyle of their users, without needing to amend their Bradesco's trusted image, so we helped them build a new bank.

# WHERE NEXT?

Existing fintechs are spreading their offerings, Revolut, Starling, N26 are, or will soon be offering business accounts to SMEs. New companies are already there. Tide and the German Penta (actually SolarisBank) offer a business account service, meanwhile Xero is leveraging open banking to facilitate accounting and finance functions in SMEs. It seems that a lift and shift of a user-centric approach awaits pretty much any financial service you can point at. Things are speeding up, incumbents need to get nimbler!


**REFERENCES**

10 http://www.altfi.com/article/4298_-ing-backed-money-app-yolt-hits-250k-users

# CAPCO DIGITAL: OUR CAPABILITIES

At Capco Digital, everything begins with our clients' vision. Our global team of specialists offer extensive insights into technological advances, user experience design and major cultural trends. Solely focused on financial services, we use our unrivalled expertise and capabilities to help transform those visions into reality.

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Turning hype into reality by delivering POC's and prototypes that adopt new trends and disruptive technology, and enable clients rapidly test and iterate to deliver value early on

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Capco Digital Assets provides clients with proprietary, out-of-the-box digital solutions that they can deploy efficiently and effectively. Our innovative software frameworks, automated workflow toolkits and white-label tools ensure that transformations can be achieved quickly, easily and cost-effectively.

## CAPCO CONNECT

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## TALENT

Our practice is loaded with a blend of talent coming from industry, agency, start-up and large technology companies. This combination of financial services expertise with designers, architects, developers and data scientists provides unique value to our clients.

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