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The Future of Neobanking

How can Neobanks unlock profitable growth?

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May 2022

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Neobanking: The One-Billion-Client Business

Few developments within financial services have happened with such breathtaking speed as the evolution of Neobanks. Less than 10 years after the first next-generation mobile banks entered the market, these digital disruptors developed into a global standalone industry segment. At Simon-Kucher, we have created a Global Neobanking Radar which tracks and ranks Neobanks around the world, based on several factors – including level of activity, funding, and valuations.

There are now close to 400 Neobanks worldwide

According to our analysis, there are now roughly **400 Neobanks** around the world serving close to **one billion clients**. Unsurprisingly, this growth hasn't gone unnoticed by investors. Following an unprecedented increase in valuations in 2021, our findings show that **the industry is now worth around 300 billion US dollars**. Global pioneers like Nubank, Dave, and Revolut have either already IPO-ed or are preparing to go public in the near future.

Less than 5 percent of Neobanks have reached breakeven

At the same time, our Radar has allowed us to discover that Neobanks' impressive growth and valuation numbers haven't yet widely translated into profitability. Based on available financial data and our own experience in the sector, we predict that **currently less than 5 percent of these challengers have reached breakeven**. Moreover, our Radar shows that while some countries are pioneers in this sector, others, like Japan, are struggling to keep up. This poses the million-dollar question: **"How can Neobanks achieve sustainable profitability?"**

In this white paper we outline the current state of the industry, how it's faring in major geographies, and provide answers on how more Neobanks can become profitable.

1. Introducing Neobanking

What are Neobanks?

Neobanks, digital attackers, or "challenger banks" as they are more commonly known in the UK, are digital-only banks that first emerged after the 2007-2009 financial crisis.

For the purpose of this paper, we define them as **mobile-focused challenger banks aiming to establish primary, digital-only client relationships across multiple products**. Core to this goal is the disruption of traditional banking processes or propositions, and a significantly improved customer experience.

Neobanking today: A change in momentum

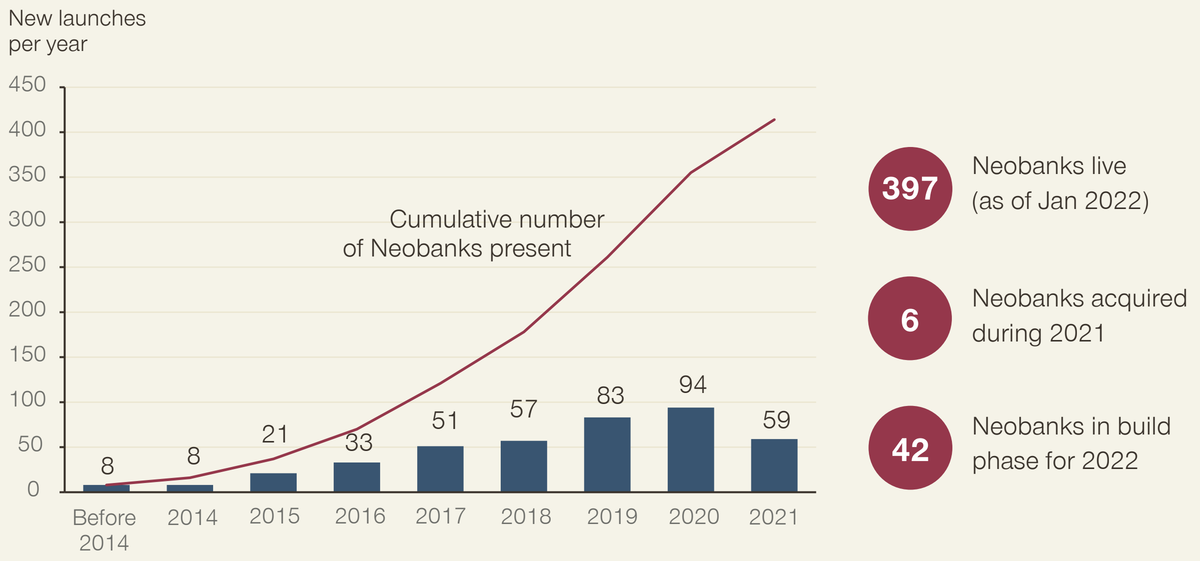
More than 50 Neobanks launched globally in 2021

As soon as the first Neobank emerged, a string of new banks appeared, increasing year by year. In 2020 alone, the number of Neobanks launched was close to 100. Yet last year, we counted "only" 59 newly established challenger banks around the world. What does this deceleration imply? The beginning of the end for Neobanks? Not likely. A change in growth dynamics? Perhaps.

While we suppose that 2020's peak may remain hard for Neobanks to reach again, we don't expect a significant drop in build activity just yet.

The peak may have been in '20 but the market continues with a lot of traction

Worldwide Neobank launches, liquidations, acquisitions and pending launches



Source: Simon-Kucher Neobank database

Figure 1

However, looking at banks that opened in 2021, it's clear that five trends are emerging, pointing to shifting priorities:

1. Quality over quantity

Less entrants overall, but a clear spike in immensely ambitious, high-profile launches. This includes JP Morgan's Neobank "Chase"(which launched in Europe in 2021), the highly funded aspirants Zand and Wio in the Middle East, and large conglomerates pitching for digital banking licenses in Malaysia.

2. Rise of speedboats

We define speedboats as fintechs or Digital Ventures within larger financial services groups. The reason behind this label is because while they belong to traditional institutions, they have the freedom and opportunities of upstart fintechs. **One in three new Neobanks is considered a speedboat.**

Such speedboats are used as digital attackers and typically support the incumbent's strategy to go after new segments or markets. Naturally, the ambition and funding levels of such ventures are significantly higher and their growth path steeper compared to pure startup banks.

3. Occupying the niche

In more saturated markets, new competitors are moving away from broadly targeting digital natives. Instead, they're offering their products to very distinct segments, tailoring to race, segment, job type, and gender. Notable examples in the US are:

- Mercury – serves startups
- Cheese – targets the Asian-American community
- Dailight – built for the LGBTQ+ community

4. Neobanking goes East

Regional dynamics are gradually shifting with the next wave of launches presumably concentrated around APAC and the Middle East. We will discuss this in more depth in Chapter 2.

5. Reaching the underbanked

There's an increasing focus in emerging markets to leverage digital banking for improving services for the unbanked and underbanked. This trend is intensified by demands from regulators, particularly in Southeast Asia where digital banking licenses are closely linked to financial inclusion targets.

But it's not only new entrants that are experiencing change. Many established Neobanks have reached a level of maturity that justifies a change in focus from scale to profitability.

Moving from a "Get reach" to a "Get rich" mindset, however, is not easy

Moving from a "Get reach" to a "Get rich" mindset, however, is not easy. It comes with the need to shift gears and requires Neobanks to professionalize quickly, while entering unchartered territory – moving beyond their initial products, USPs, and home markets. It also requires them to find ways of monetizing their sizeable client base, something many banks are still struggling with.

Neobanking today: The 300-billion-dollar industry

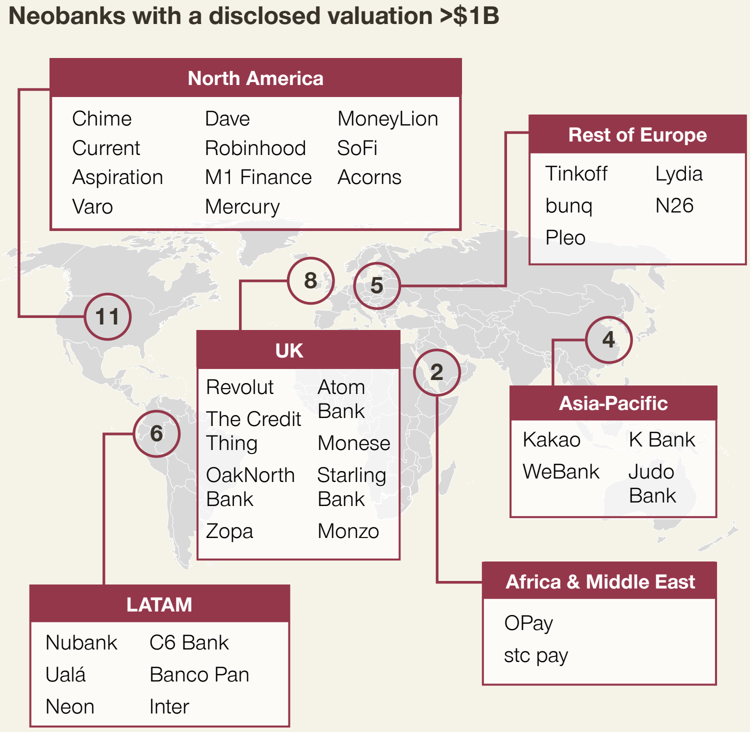
Neobanking is a 300-billion-dollar industry (based on 2021 valuations)

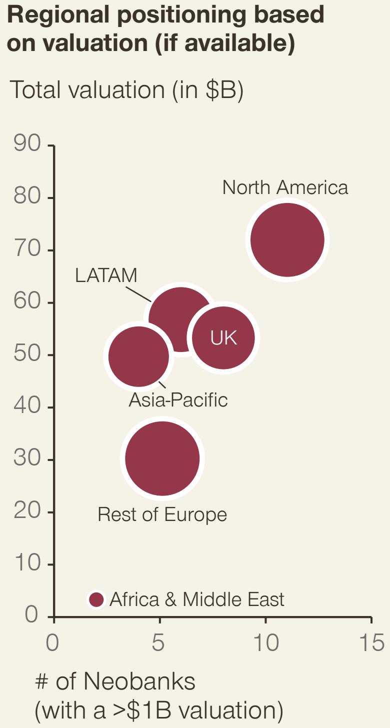
2021 also marked the first larger scale Neobank going public, as Brazil's Nubank completed its initial listing at the New York Stock Exchange (NYSE) in December. At that time it was valued at 45 billion dollars, making it the most valuable Neobank in the world.

Neobanks in North America, LATAM, APAC and the UK, each now accumulate for a total price tag of +50 billion dollars per region

Analyzing the data from our Global Neobanking Radar we estimate the global market size for Neobanks to be around **300 billion dollars**. This is spread across nearly 40 Unicorns and distributed relatively evenly across major regions. As such, Neobanks in North America, LATAM, APAC, and the UK, each now accumulate for a total price tag of 50 billion dollars, or more, per region. Africa and the Middle East, however, have some catching up to do – as we'll discuss in more depth in Chapter 2.

Valuation hype bigger than ever





Selection of the largest valuations

	1. Nubank	2. Revolut	3. Chime	4. WeBank	5. Kakao-Bank	6. Robin-hood	7. SoFi	8. Tinkoff	9. N26	10. K Bank
Valuation (in $B)[1]	45	33	25	21	19	10	10	9	9	7

Source: Simon-Kucher Global Neobanking Radar | Notes: 1. Nubank valuation at time of IPO (Dec. 9, 2021); other valuations based on latest available data and Simon-Kucher analysis.

Figure 2

Growing valuations naturally also attract new types of investors. Currently, there is a shift away from pure Venture Capital funded businesses to more Corporate and classic PE-type ownerships. Examples of this trend include the large investments the Banco Bilbao Vizcaya Argentaria (BBVA) have made in Neon, and Warren Buffett's stake in Nubank.

The future of Neobanking: Is it time for mergers and acquisitions?

While IPO stories have made headlines in the last 12 months, little has happened on the mergers and acquisitions (M&A) side, but early signs of a growing trend may be on the horizon. Over the last few months, several mid-sized transactions have taken place, including Orange Bank's takeover of Anytime in France and NAB's deal with 86 400 in Australia. Interestingly, in both cases, the Neobanks add value to larger, established banks, looking to strengthen their digital propositions.

With 400 Neobanks in the world, players face heated competition. As such, we predict that the number of such deals will go up in the coming years, potentially dividing the competition into three types of players:

1. Digital speedboats of traditional banks (either acquired or built)
2. Neobanks powerful enough to grow on their own
3. Digital banks throwing in the towel

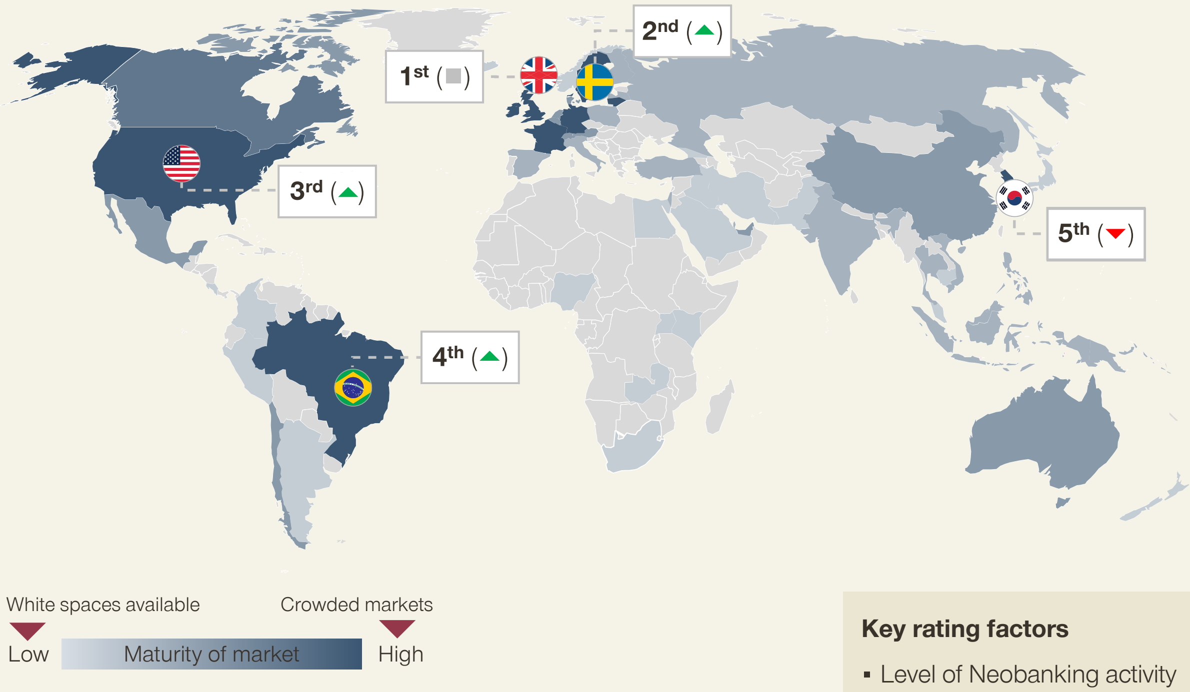
2. Neobanking: A Global Overview

As we previously stated, over **50 new Neobanks are established around the world every year**. Yet, that doesn't mean that all of them are profitable, and certain segments and markets are providing more fertile ground than others. Our Global Neobanking Radar enables us to understand why that is, keep track of the industry's evolution in different markets, isolate best practice countries, and identify remaining white space opportunities. It covers 60 countries and measures the progress and success of challenger banks in their respective markets.

This year's Neobanking Radar Top 5 are: UK, Sweden, USA, Brazil, and South Korea

It also allows us to rank countries where Neobanks have caused the biggest disruption. The Top 5 shows a diverse geographic picture including two European countries (Sweden, and the UK as clear frontrunner with more than 50 contenders), the US, Brazil (as LATAM's pioneer market), and South Korea. Other markets worth noting for climbing the rankings and developing quickly are Lithuania, Australia, the UAE, and India.

Simon-Kucher's Worldwide Neobanking Ranking



Top 10[1]	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.
Compared to 2020	■	▲	▲	▲	▼	▼	▲	▲	▲	▼

Key rating factors

- Level of Neobanking activity
- Digital banking readiness
- Customer penetration of Neobanks
- Valuation and funding of Neobanks

Source: Simon-Kucher Global Neobanking Radar database
Notes: 1. Due to the distinctive characteristics of the Chinese market,
China has not been included in the ranking (it's difficult to compare with other markets)

Figure 3

From our Radar we have determined four regions of note: MENA, APAC, USA, and LATAM. Although, these areas are at different development stages, they each present an interesting learning and outlook for Neobanks globally.

Neobanking in MENA: Getting ready for the "big splash"

With the exception of a few notable pioneers like Liv. or meem (both arms of large and digital-savvy universal banks), the concept of Neobanking in the Middle East and Northern Africa (MENA) gained little traction, at first. Countries like Egypt, Morocco, and smaller Gulf (GCC) nations – including Kuwait and Bahrain – have remained largely untouched by digital attacker models. It's no surprise, therefore, that they rank low on our Global Neobanking Radar.

But things are about to change. At the time of writing this paper, several high profile Neobank aspirants are gathering at the start line, poised to heat up the competition by setting foot into previously more traditional banking markets.

Selection of upcoming and recent launches in MENA

Neobank	Segment	Launch Country	Country Ranking	Owner	Stage	Launch Date
Wio	Initial focus on SMEs – retail coming soon	UAE	12	Alpha Dhabi and ADQ (65 percent), Etisalat (25 percent) and FAB (10 percent)	In-principal approval from the Central Bank of UAE	Beta launch planned for 2022
Zand	All	UAE	12	Various investors	Subject to final regulatory approvals. Open for registration only	2022 (expected)
Weyay	Retail	Kuwait	N/A	National Bank of Kuwait	Launched	Launched 2022
MISR Digital Innovation	Unknown	Egypt	55	Banque Misr	Pending regulatory framework governing digital banks by the Central bank of Egypt	2022 (expected)

Source: Simon-Kucher Global Neobanking Radar database, Wio, Zand, Weyay, Misr

Figure 4

Future Neobanking strategies

If other markets are a good indicator for what will happen next, then the MENA region can expect more Neobank competitors to appear very soon. Meanwhile, incumbent banks without digital attackers will need to rethink their strategy to defend market share, and/or will become attackers themselves in this developing market.

We've determined three unique regional factors that are important to consider for any player looking to build a successful Neobanking strategy in MENA. First is the relatively small population size in several markets. Second is the often-nascent regulatory environment for digital banks.

And third is the distinct customer segments that can be addressed within these markets – including expats, as well as white- and blue-collar workers.

Three unique regional factors in MENA Neobanking: small market sizes, digital banking licenses, diverse customer segments

As a direct consequence we expect the region to adopt three possible strategies:

1. **Setup of pan-regional or multi-country Neobanks** to overcome scaling limitations related to smaller population sizes in individual markets
2. **Launch of super-app type offerings**, tapping into non-banking revenues to grow the pie for banking providers in the region – which would follow successful examples in Central Asia and LATAM (a super-app is a one-stop shop where consumers can access multiple services at once, including financial and non-financial)
3. **Sharp, tailored segment-specific offerings** addressing the distinct needs of different customer groups

Mutually relevant to all three of these strategies is the capability to innovate and create new sources of revenue beyond traditional banking income. This will be crucial to success.

Neobanking in APAC: Regulator-led growth

Neobanking was quickly adopted in APAC, achieving some early successes – particularly in China and South Korea

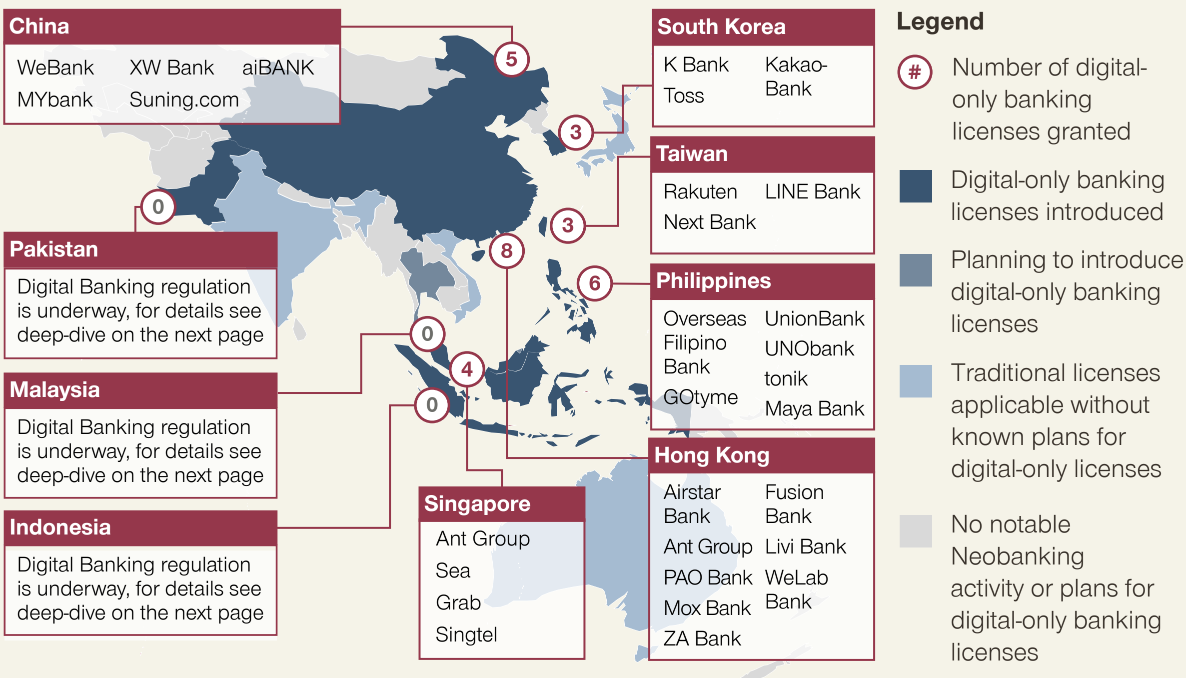
Unlike the MENA region, Neobanking was quickly adopted in APAC, achieving some early successes – particularly in China and South Korea. In other markets, however, regulatory obstacles for new entrants and comparably slow reactions from most incumbents have meant that, until recently, Neobanks haven't played a significant role.

In recent years, regulators in Hong Kong and Singapore identified digital banking opportunities, namely the prospect to increase competition, improve service levels for customers, promote financial inclusion, and enhance financing options for SMEs (at least in Singapore). Since this realization, specific digital banking licenses have been granted in both countries. This has led to more Neobanks launching and beginning to grow.

Other regulators have followed suit and are rolling out their own licensing procedures, although with different objectives and applying different processes. Most noteworthy regulator-driven developments are currently happening in Pakistan, Indonesia, and Malaysia. In fact, in Malaysia 29 applicants from a variety of sectors applied for licenses and five digital bank licenses were awarded in April 2022.

It is worth noting that the launch activity of digital players is not exclusively tied to regulator-led processes. Digital attackers like Aspire in Singapore, TMRW in Thailand, and new speedboats from incumbent banks, are getting ready to play a relevant role in the market.

Regulatory enabler: Maturity of digital-only banking licenses



Source: Simon-Kucher Global Neobanking Radar database

Figure 5

Deep Dive on country specific regulatory aspects

APAC countries with no Neobanks, but **regulation is underway**	
Pakistan	Up to five digital banking licenses may be issued. Application deadline on March 31, 2022.
Malaysia	Five digital banking licenses were awarded in April 2022 (selection out of 29 applications).
Indonesia	New regulation on digital banking effective as of October 30, 2021. Digital banks can be set up independently or through an existing bank. Currently, there are seven digital banks operating under traditional banking licenses, with seven more awaiting licenses (either digital or traditional). This is thanks to the 2021 digital banking regulation.

APAC countries **planning to introduce digital-only licenses**	
Thailand	The Bank of Thailand (BOT) plans to issue guidelines for digital banks by June 2022 and may allow existing lenders and new applicants to seek licenses. BOT also plans to scrap the investment limit placed on commercial banks in fintech – excluding digital assets.

APAC countries operating with **traditional banking licenses**	
Australia	Only digital payment licenses applicable. Neobanks operate under traditional banking licenses. The country has introduced stricter regulations after Xinja – an Australian Neo-bank – collapsed.
Japan	Some regulatory easing to allow selling a variety of financial products (e.g., banking, securities, insurance, etc.) under one license, rather than multiple (i.e., license per product).
India	Only digital payment licenses applicable. NITI Aayog (the Indian Government's public policy think tank) recently published a discussion paper on digital-only banking licenses, but no concrete plans have been put in place for now.
Vietnam	Only mobile money licenses (for payments) have been made applicable. Vietnam's central bank approved eKYC in 2020. Though, there are no definitive intentions or any framework put in place for digital-only banking licenses, as of yet.

How can Neobanks in APAC achieve ongoing success?

A common purpose, and one that will likely drive much of the future of Neobanking in the region, is the intent to better serve the unbanked and underbanked with a new digital proposition. Regulators intend to drive financial inclusion and provide tailored propositions to the underbanked. So, challenger banks will need to go beyond stealing "classic", digital-savvy customers away from incumbents and comply with regulators' intentions.

When options to monetize un- and underbanked customers are limited, having a sound profitability strategy in place is particularly important

As options to monetize unbanked or underbanked customers are generally limited, having a sound profitability strategy in place will be particularly important. However, there are existing best practice examples that Asian entrants can draw inspiration from. Pioneers like Nickel in Europe, as well as leading African and LATAM banks, have profitably and successfully combined financial inclusion and digital strategies.

A deep dive into Japan and Australia

Clearly, Neobanking's growth in APAC is largely licensing and regulator driven. However, it's also evident that each region is developing at its own pace. Japan and Australia are regions of particular interest, as they indicate a peculiar starting point and subsequent opportunities.

Japan

According to our analysis, Japan is the least developed Neobanking market of all large industrial nations, **ranking 44 out of 60 countries** in our global radar.

Little disruption has happened in Japan to date

Little disruption has happened in Japan to date, mostly due to the country's traditional banking structures remaining firmly in place, visible cultural barriers, and the little number of digital attackers. Nevertheless, given the size of the market and the increasing push in other APAC regions we believe that Neobanking will soon gain traction in Japan.

While the race has only just begun for the country, different contenders will have a chance to take part, including regional banks, Japanese retailers, and international digital banks. If underlying opportunities are addressed, then 2022 might be the year of awakening for Japanese Neobanks.

Australia

Although Neobanking is still relatively new to Australia, it has already been quite a dramatic and turbulent ride. Of the 11 Neobanks that have been established, two have been acquired by incumbent banks, while two others had to be liquidated despite large ambitions. This has set an interesting precedent, potentially teaching a valuable lesson to traditional banks around the world.

Most notably, Xinja, which had received a banking license in 2019, ceased its banking operations a year later due to complications arising from the COVID-19 pandemic and failed funding from a Dubai-based investment fund. Subsequently, the Australian prudential regulation authority has increased regulatory requirements for Neobanks applying for a banking license, effectively causing a re-start of Neobanking activities in the sector.

Known as a breeding ground for innovation, we expect the second wave of Neobanking in Australia to set standards for cutting-edge banking propositions. These propositions will likely contain elements such as Buy Now Pay Later (BNPL) – an Australian specialty – digital mortgages, and super-apps.

Neobanking in the USA: Entering an enhanced stage of maturity

Two key dynamics are taking place in the US market.

Neobanks in the States now serve more than 100 million retail clients (in number of accounts)

On one side, established Neobanks keep growing at record pace. If we include the large Investment/Neobank hybrids like Robinhood and Acorns, **Neobanks in the States now serve more than 100 million retail clients**. Growth is not concentrated on one or two superstars but happens fairly evenly across the competition. As of early 2022, eight banks have already reached a client base of 5 million users or more, gaining them significant scale benefits for bolder strategic plays.

On the other side, we've observed an ongoing inflow of new providers, counting a staggering **19 new banks entering the market in the last 12 months alone**.

As the industry develops quickly in the USA, the remaining white spaces are harder to spot

As the industry develops quickly, the remaining white spaces are harder to spot. Nevertheless, we continue to see opportunities with significant potential. Here are three to watch out for in 2022:

1. Build or Buy options for large incumbents

Several large banks have long placed their bets on the sector (for instance, JP Morgan and Goldman Sachs with their speedboats Chase and Marcus) but many other large retail and universal banks have remained hesitant. Those banks need to act now if they want to participate in this accelerating trend or simply to defend their market share.

The good news is that there are two viable options at play. First, build options remain intact and can leverage an abundance of plug and play technical solutions – but they require enormous ambition, focus, and a clear vision. Second, there are now acquisition options available in different shapes and sizes, which, while expensive, could provide a fast track for late entrants to catch up.

2. SME Neobanking: Untapped opportunity

While challenger banks specializing in the small business segment exist in the US, they lack the breadth of offering and innovation of international providers. These global players have moved beyond traditional banking products and have started offering ecosystems with both financial and value-added services to their commercial clientele.

Saying that, we still see room for one or several category killers in this space and expect innovative US providers to come in and disrupt the market.

3. Pioneer the super-app approach: A coming trend in many markets, an opportunity in the US?

Adding super-app components could open new revenue sources

Large Neobanks have the size and financial means to test the boundaries of banking and address more of their clients' needs, even beyond banking. Adding super-app components could open new revenue sources and help Neobanks stay unique in an increasingly dense competitive field.

Neobanking in LATAM: On the move

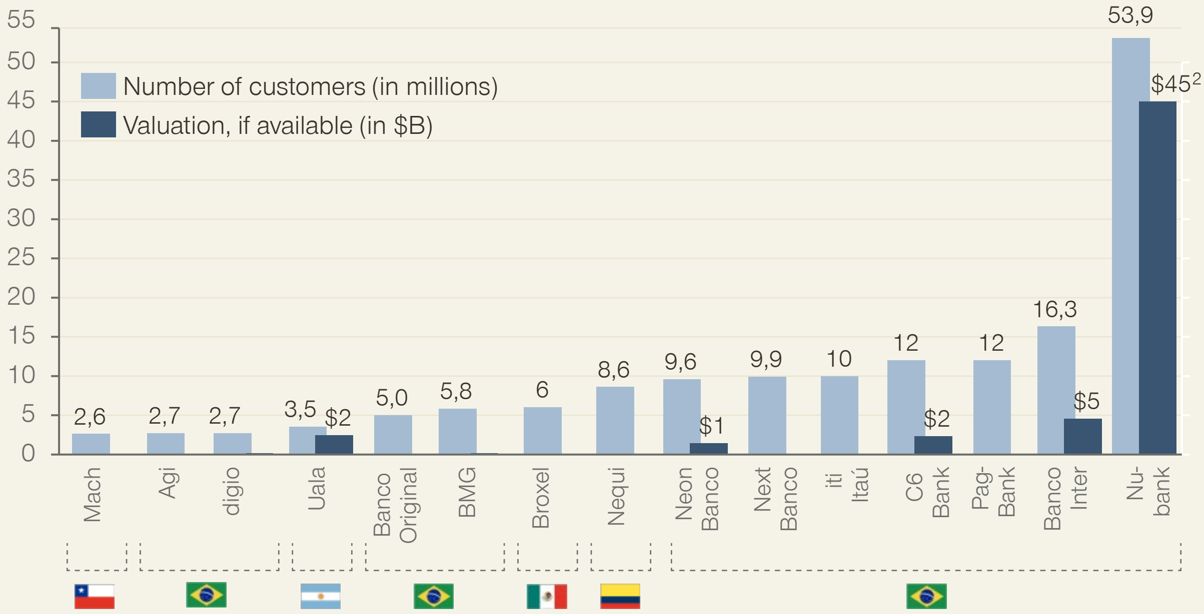
Latin America is a tale of two worlds. There's the booming and widespread Neobanking scene in Brazil and Mexico on the one hand, and selected local heroes flourishing in most of the smaller markets on the other – such as Nequi in Colombia, Uala in Argentina, and Tenpo in Chile. However, over the last three years, investors and startups have focused on Brazil and Mexico, making up three of every four new Neobank launches.

Brazil is a global role model for Neobanking's success – roughly every second adult now uses Neobanks

It's no surprise, therefore, that the list of the largest Neobanks in the region is dominated by Brazilian banks, home to 11 of the 15 largest players. In fact, by many standards, Brazil is a global role model for Neobanking's success, where **80 million clients** – which is roughly every second adult – have signed up for a Neobank account, proving the mainstream acceptance of the model.

Nubank: LATAM's Neobanking frontrunner

15 largest Neobanks[1] in LATAM by number of customers (if available)



Source: Simon-Kucher Global Neobanking Radar database

Notes: Data as of early 2022 – 1. PicPay with 60 million customers omitted (payment app).

2. At time of IPO (Dec. 9, 2021). Current Market Cap 46.5 billion dollars (Feb. 17, 2022)

Figure 6

What can we expect from LATAM in 2022?

We predict three developments:

1. **A spike in innovation in Brazil** where the dense competition is poised to ignite creativity among the 10 or more relevant players in the market.
2. **An increasing willingness to scale up internationally in smaller countries** where local heroes are reaching the ceiling in their home markets.
3. **Continued conversion of banking and non-banking services will likely accelerate**, and the region's next success story could very well be a retailer gone banking or a bank gone retailing. For instance, Colombia's Rappi started out as a delivery service, and is now a bank, launching credit cards in 2021.

3. Building A Bank Is Easy, Building A Profitable One Is Not

So far in this paper we have established the impressive rate at which Neobanks are being launched all over the world. Yet, despite the hype around valuations and the rapid client uptake, Neobanking hasn't been able to convince all critics, many of which are questioning the segment's path to profitability.

Less than 5 percent of the world's 400 Neobanks have turned profitable so far

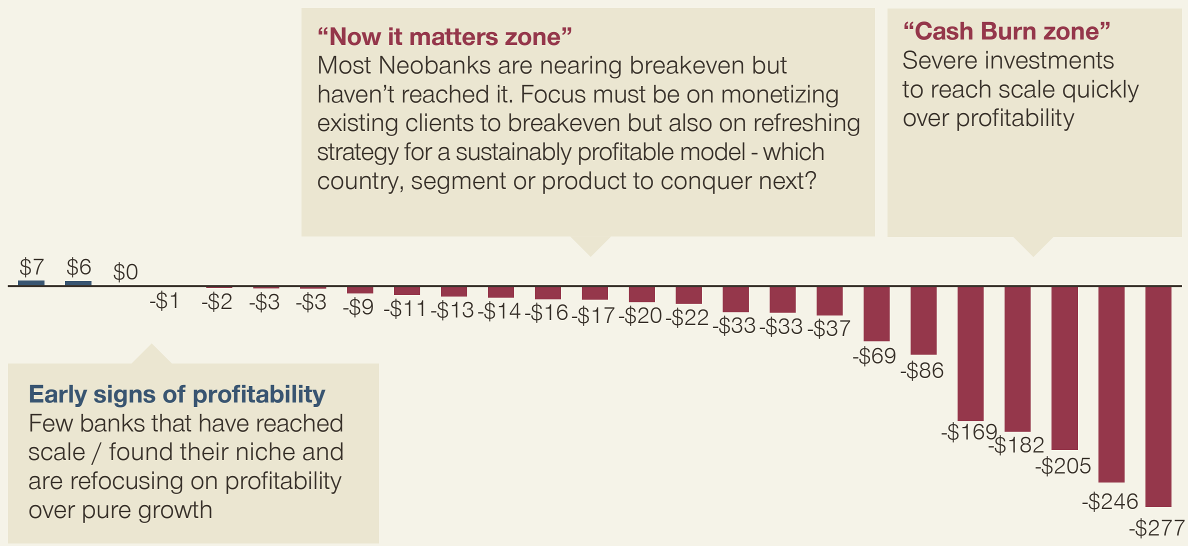
And they're not wrong to doubt. Our latest analysis found that **only two out of 25 advanced-stage Neobanks have reached operational breakeven**. Extrapolating these results across the industry and considering that over half the players are not yet three years old, we predict that **less than 5 percent of the world's 400 Neobanks have turned profitable so far.**

Moreover, cash burn rates remain stellar for several banks, with **annual losses exceeding 100 million dollars** in some cases. What is more, even after adjusting for the high acquisition costs, the large majority of Neobanks still haven't found the key to making money.

In most cases digital banking is not yet profitable

Analysis on the profitability of Neobanks

Income/loss before tax[1], per customer
Based on the most recent annual reports of 25 large Neobanks for the period 2021-2020



Source: Simon-Kucher Global Neobanking Radar database
Notes: 1 Excluding other comprehensive income/expense

Figure 7

Where Neobanks are struggling is on the income side. Revenue levels per client often don't exceed single digit or low double digit per client

So how can Neobanks achieve sustainable profitability?

In order to answer this question, let's revisit the simple equation of profitability. Profits are defined as the excess of revenue over costs, and costs in digital banking are closely linked to scale and the ability to keep marketing costs down. For instance, acquiring new clients in a budget-saving manner. We believe that most challengers have internalized such thinking and have done a great job of reaching a certain scale while keeping customer acquisition costs at a minimum. They've done this by mastering digital marketing, using relatively cheap social media channels, and heavily promoting word of mouth to gain new clients.

Where Neobanks are struggling is on the income side. Revenue levels per client often don't exceed single digits or low double digits per client. Larger jumps in that metric tend to be the exception rather than the norm. Some of the reasons lie in the inherent growth-obsessed DNA of the first Neobanks and their subsequent strategic choices.

Analyzing these priorities, one might argue that most Neobanks have done a fantastic job in creating a disruptive user experience, designing effective hook products, and, subsequently, growing their client base. At the same time, however, they often lack a profitability mindset, have – in retrospect – accelerated geographic expansion too early, and underutilized their capacity to spot emerging product trends beyond their hook offering.

Pitfalls on the way to profitability
Five common mistakes digital banks make in their early years

Lack of geographic focus – putting up new flags before cracking the home market

Lack of innovation post-MVP – launching one smart product is not enough, spotting latest trends is key

Focus on scale, not profitability – VC-driven mindset of breaking even after five to seven years is a highly risky strategy – is it time for a rude awakening?

Absence of monetization strategies – fantastic UX but hard for players to move from fee free products, due to poor current pricing, bundling, and product strategies

Underestimating complexity – going from a garage startup to an international bank in just a few years is a stretch, even for the most professional Neobanks

Neobanks need to widen their product offering

Consequently, the value proposition of many players is still heavily focused around two core products:

1. Accounts
2. Card-based payment services

Accounts & Card-based payment services are two core products that generate an estimated 70 percent of revenues

These two core products generate an estimated 70 percent of revenues across the industry. While both are simple and important entry products, they are often loss leaders. This is due to severe levels of competition, limited customer willingness to pay, regulatory caps on interchange fees, and the lack of international travel post-COVID (which has negatively affected transactional revenues).

Other emerging, and more profitable, product trends, have either never been addressed or have been identified too late by the growing segment. Among these potential Neobanking cash cows, four are serious contenders: BNPL or Embedded Finance, Digital Investments, Crypto Currencies, and Digital Mortgages / Digital Lending.

Failing to harness at least some of these revenue boosting products, will make it challenging for Neobanks to become profitable.

Four must-have products to boost profitability

Buy Now Pay Later / Embedded Financing
Integrated financing options at Point of Sale – connected with the banks payment and account services

Why a must-have?
It can be easily embedded into a Neobank's core offering. It's a booming market, and presents little price sensitivity for clients

Digital and Hybrid Investments
Access to a range of digital or hybrid investment solutions, from robo-advice to managed investments

Why a must-have?
One of the most profitable digital banking products – rapidly increasing customer base among digital natives

Crypto Currencies
Access to core crypto solutions, including wallets, investments, or other digital financial products

Why a must-have?
High margin products. It's a quickly growing market with many first-time users and is gaining increasing attention from larger banks

Digital Mortgages
Innovative solutions for real estate financing via brokerage, partnership, and in-house solutions – focusing on digital customer journeys

Why a must-have?
Lack of truly digital solutions in this space. It provides access to profitable customer segments

The Neobanking playbook to profitability

What can Neobanks do to avoid past pitfalls and steer their ventures toward profitability?

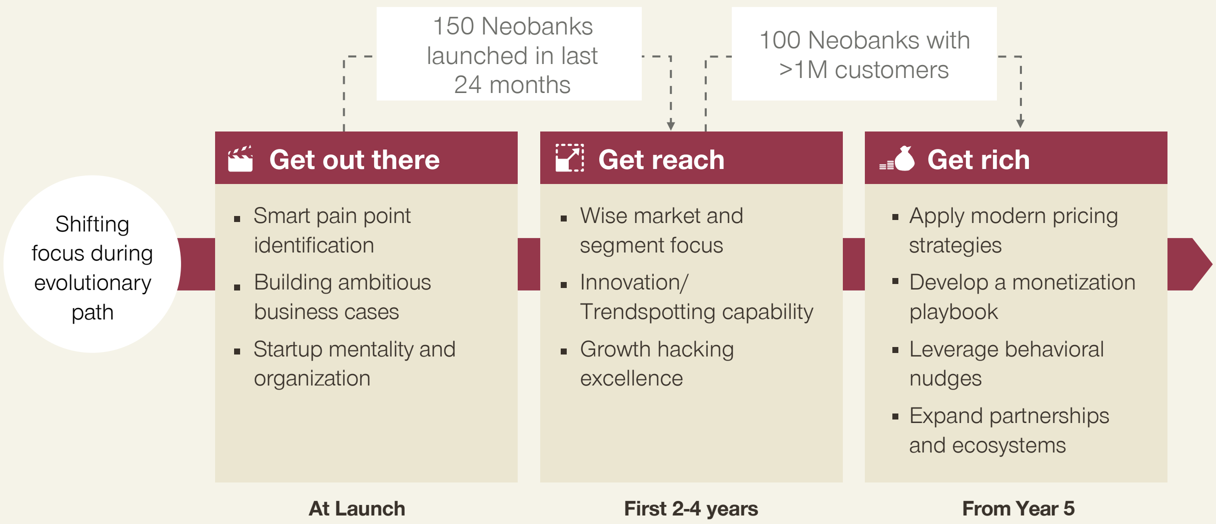
> Neobanks' profitability should be at the core of all major decisions ahead of launching a venture

First of all, even before launching a venture, profitability should be at the core of all major decisions. Moreover, banks need to follow certain best practices across their three core life stages: launch, growth, and monetization. This includes starting with an ambitious, yet realistic business case to guide strategic action, smart product, and market choices during the growth period. Upgrading to industry-leading monetization efforts once reaching scale.

We have identified 10 moments of truth across a Neobank's lifecycle, which we've condensed into a playbook for profitability. Managing these well is the key to success.

Neobanking Lifecycle

Tailored set of products available to cater to specific client demand



Source: Simon-Kucher & Partners

Figure 8

Get out there:

1. **Smart pain point identification** – focusing on those where customers have a high willingness to pay for solving them
2. **Building ambitious yet realistic business cases** – with breakeven reachable after max. of three to five years
3. **Startup mentality and organization** – agile approach, planning from milestone to milestone and managing tight budgets in between

Get reach:

4. **Wise market and segment focus** – home markets first, international expansion at the right time, and following clear prioritization rules
5. **Innovation / Trendspotting capability** – moving beyond user experience and hook products, detect profitable product trends, and expand product range accordingly
6. **Growth hacking excellence** – combining digital marketing and data competences to grow client base at minimal customer acquisition costs (CAC)

Get rich:

7. Apply **modern pricing strategies** – copying ideas from successful digital unicorns outside of banking, e.g., subscription plans
8. Develop a **monetization playbook** –
   - From Free-to-Fee initiatives
   - Loyalty programs
   - Product bundling or De-Bundling
   - Data-driven cross-selling campaigns
9. Leverage **behavioral nudges** – to match products with customers (e.g., use the “Panini effect” to help customers identify missing or underrepresented products)
10. Expand **partnerships and ecosystems** – leveraging the increasing attractiveness of the bank’s own brand

Neobanks that get all or most of these elements right should not only reach scale and clients, but also sustainable profitability.

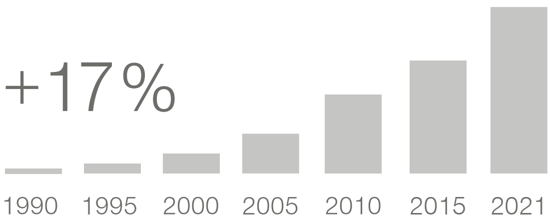
Simon-Kucher & Partners
at a glance

Simon-Kucher & Partners, Strategy & Marketing Consultants

Simon-Kucher & Partners is a global consulting firm with more than 1,700 professionals in 42 offices worldwide focusing on TopLine Power®. Founded in 1985, the company has more than 35 years of experience providing strategy, marketing, and sales consulting and is regarded as the world's leading pricing advisor.

Average annual growth rate since 1990

+17%



Revenue in 2021

€442.6m

Global locations

42 offices in 27 countries

Clients' average increased return on sales thanks to our projects

+2 to 4 p.p. ROS

Global project expertise in

80 countries

Global experts in commercial strategy

Financial Times
Marketing, Brand & Pricing

Financial Times, list of the UK's Leading Management Consultants, silver category, on par with other consultancies, 2022

brand eins/Statista
Marketing, Branding, Pricing
Sales, Aftersales, CRM

brand eins/special edition Consultancies 2022, together with Statista: Best Consultancies in Germany, No. 1, 2022

Finanz und Wirtschaft
Marketing, Brand, Pricing
Sales, Aftersales, CRM
Analytics, Big Data

Finanz und Wirtschaft, survey of the best management consultancies in Switzerland, 5-star rating in Marketing, Brand, Pricing/Sales, Aftersales, CRM, 4-star rating in Analytics and Big Data, 2021

Forbes
Marketing, Brand & Pricing
Sales & CRM

Forbes, survey of the best management consulting firms in the US, 3-star rating, 2022

What others say about us

Simon-Kucher & Partners was a great partner during our research phase. We appreciated their support, expertise, and partnership throughout the process of developing Uber Rewards.

Barney Harford, former COO, **Uber**

Simon-Kucher is a down-to-earth consultancy, highly committed and trustworthy. They deliver what they promise.

Member of the Executive Board, **Bank Julius Baer & Co. Ltd.**

Pricing strategy specialists.

The Wall Street Journal

Simon-Kucher & Partners did some excellent work to help us to break one of the great myths in our organization. They radically changed how we understood our core audience.

Chris Stibbs, former CEO, **Economist Group**

No one knows more about pricing than Simon-Kucher.

Philip Kotler, Marketing Guru

In pricing you offer something nobody else does.

Professor Peter Drucker, Management Thinker

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