



“Neobanks” — Who Will Win?

The U.K. Retail Banking landscape is evolving. Historically a stronghold of the “Big 5” banks (Lloyds Banking Group, RBS, Barclays, HSBC and Santander), the market has seen a number of entrants in recent times, partially driven by spin-offs such as TSB, but also by new “challenger” banks coming to market, such as Metro Bank in 2010 and more recently a wave of technology-enabled propositions.

These include U.K. start-ups Atom, Tandem, Mondo, Starling and Secco, as well as the more established Fidor Banks from Germany, which have collectively been described as “neobanks”. This has attracted much attention, as many of them have recently completed successful capital raisings and some (notably Fidor, Mondo and Atom) have taken a “minimum viable product” approach which has led to partial proposition roll-outs to U.K. consumers.

In many cases, what these banks have revealed does not give full visibility of their strategies, but a number of alternative approaches (see Figure 1) can already be identified, raising the obvious question of “who is best positioned to win and why?”

Proposition Approach: Savings-led vs. Credit-led vs. Current Account-led

The different “neobanks” take three broad approaches on the key

“anchor” products that drive new customer acquisition. All have their merits and are likely to resonate with particular customer segments.

A savings-led proposition is likely to appeal to yield-chasing savers: in aggregate this customer segment holds at least £50-70bn of deposits and enables banks to target an attractive profit pool beyond savings. For example, Fidor Bank has so far used this approach in the U.K. market, albeit that it has a much broader proposition in Germany, its core market — where it asks customers what they want ahead of launching a product.

Credit-led propositions, e.g. Tandem, hope to provide solutions for particular “pain points” in the consumer credit market, such as credit cards. Once customers are on board, there is a “customer journey” theme to explore, as individuals become wealthier, build their credit history, enter new life stages with different needs, and require new products such as mortgages. Data (own and third party) is a key factor underpinning these propositions.

Finally, some emerging players in this space, such as Mondo and Starling, have a current account-led proposition which focuses on user experience and app functionality, for example helping consumers manage their finances. These are valuable, but can arguably be replicated by large banks with deep pockets — in fact, there is evidence of this happening already. Of course, the “neobanks” can target a sizeable segment of consumers who have a higher propensity to move away from legacy brands, and in any case are not entirely reliant on Main Bank switching — many will aim for secondary banking relationships. Importantly, as explained

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