Panorama of the French neobanks

2019: year of adaptation of the banking services to the new clients’ consumption patterns

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Executive Summary

NEOBANK

A simple and digital experience, especially when opening an account.

Strategy of differentiation with the traditional actors, as a result of their innovations and a deep understanding of the new consumption patterns.

Focus of the offer on a limited perimeter (everyday banking solutions and payments).

The number of neobanks has been multiplied by 3 in the last 3 years, that is to say, 19 actors currently established in the French market.

- Neobanks on a European scale and with great internationalization ambitions.
- A higher entry-level offer pricing than online banks, but four times cheaper than traditional banks on average.
- Professionals and minors: new top priority markets for the neobanks.
- Various financial, regulatory and marketing challenges to ensure the sustainability of their business model.
Players deployed on a European scale
Confirmed boom of the neobanks in 2019

Neobanks took several years to find their audience

The precursors players coming from the payment industry, such as Sogexia, Anytime and Morning, opened the path for neobanks, as early as the years 2010s.

The launch of the Nickel Account (now called Nickel) in 2014 allowed for greater exposure of the new banking actors, and the democratization of access to this type of services, by appearing in thousands of tobacconists.

However, it will take approximately 3 years and a constant increase in the number of clients to witness to the arrival of 14 new players - coming from the web entrepreneurs ecosystem, the retail (Orange and Carrefour) and Fintech industry – that will deploy themselves on a European scale.

A steady pace in the number of new account since 2017

According to the estimations we have derived from the public data, by the end of June 2019, neobanks represent a market of approximately 2,6 millions of active accounts.

In 24 months, the number of accounts has been multiplied by 3,5.
Forecast of the increase in neobanks monthly active accounts*

Sources: interviews of neobanks' executives, public websites and KPMG forecasts

*Forecast based on the number of active accounts for 18 neobanks with a low hypothesis for monthly active accounts
A focus and a differentiation in offerings

Unlike traditional banks which are targeting all customer segments, the neobanks do not hesitate to focus on priority segments and develop offers accordingly. For instance, Millennials or frequent travelers, two of Revolut’s top targets, are being offered a multicurrency payment card with low currency conversion fees.

Compared to the traditional banks, known for having greater financial capabilities for innovation, neobanks are able to propose a limited offer of highly innovative services by focusing on part of their consumers’ needs for everyday banking products.

Furthermore, neobanks have decided to launch new brands that are breaking the traditional codes of the banking industry’s commercial communication.

A high-level client experience and a simplified relationship entry model

The main asset of neobanks is their ability to propose opening of accounts in only few minutes, thus being completely different from traditional banks where the process could take few days, or even few weeks.

Thanks to their status of payment institutions, the required information and supporting documents are reduced to their minimum. In fact, the customer’s knowledge building for marketing purposes, is conducted as the service is used.

The client’s autonomy is also highly promoted thanks to a great number of functionalities allowing for the instant access to all banking services, without requiring the help of an advisor.

Partnerships and new economical models

Neobanks mostly apply low cost strategies exhibited by a focus on everyday banking offerings. By positioning themselves on only specific elements of the value chain, they are able to generate savings translated into their pricing. As a result, several neobanks have already announced that they’ve reached their financial equilibrium.

The neobanks have adopted a list of comprehensive fees and rates, generating a feeling of transparency from the consumers. Usually structured around Freemium/Premium offers, their goal is to transform a portion of the free clients’ services into chargeable clients’ services.

On another hand, they’re looking to expand their offerings by adopting new Open Banking strategies with traditional actors of the financial services industry (payments, insurance, financing…) but also non-financial ones (aggregators, loyalty programs, travels…). The inclusion in the ecosystem of these new partners is achieved through APIs.

Although each neobank has its own background, they are all stimulating the 3 main pillars

The great number of economic agents located in France helps to identify good practices that are useful to each and every professional working in the financial services industry and willing to create a digital bank in France.

The traditional banks and their online platforms can benefit from these good practices to improve their positioning and marketing device.

Since agility and reactivity are the main assets of neobanks, these good practices are in constant evolution and require a case-by-case analysis to be applied to different banking contexts.

KPMG analysis

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Limitations and challenges for neobanks

Despite their commercial success, neobanks face limits that could slow them down in the medium-term horizon.

Focusing on everyday banking and payments is both a strength and one of the biggest weaknesses of neobanks. Neobanks are offering a valuable client experience at an attractive price. However, by providing only a limited perimeter of services, they are still not considered as a concrete alternative.

Obtaining a license is a prerequisite to extend their range of credit and saving products. Nonetheless, it requires the approval of strict regulatory constraints that could impact the simplicity and fluidity of their clients’ journey.

In terms of distribution, the absence of branches and dedicated banking advisors providing their expertise to the clients, could be missed by part of the consumers. Aware of this issue, neobanks are offering online assistance, either in a human form or though an automatic Chatbot.

Lastly, the clients’ perception of their reliability and solidity is a major challenge for neobanks. In fact, when choosing his bank, the client asks himself the following question: what will happen to my money if the bank goes bankrupt ? What is the level of protection of my assets in this institution ? And, although most of the consumers are aware of the warranties associated to their deposits and provided by the Fund of Deposits Warranty and Resolution (FGDR), they’re still questioning themselves on their application to neobanks, and particularly those being homologated in foreign countries.

Continuous innovations to ensure profitability and attract potential investors

Neobanks were born with the technology, from which they derive a great part of their competitive advantage. This race force them to constantly invest funds to remain competitive. It is also essential for neobanks’ executives to show the sustainability and profitability of their business model in the long-run.

To achieve this, neobanks are looking for new growth drivers that will make their investments lucrative and will create value with the customer base acquired in the past years. This value creation is achieved through new offers for which time-to-market is a key feature, through the implementation of new strategic partnerships. The rise of the Open Banking could be a great opportunity to reach this objective.

The challenge of controlled risk management

Neobanks are subject to the same obligations than traditional banks in terms of risk management. Consequently, following regulators’ requests, several neobanks were forced to strengthen their client’s knowledge policies, and especially the KYC part, when opening an account. Others were forced to improve their procedures regarding the knowledge of their clients’ past transactions.

On the other side, clients are also particularly sensitive to the security of their banking data and payments.
The evolution of the number of active accounts has been recorded by cumulating the monthly averages of new active accounts opened in each neobank. These forecasts are based on public data and on interviews carried on with the neobanks.

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