



2020 EBA POLICY RESEARCH WORKSHOP

“NEW TECHNOLOGIES IN THE BANKING SECTOR – IMPACTS, RISKS AND OPPORTUNITIES”

WILL “NEOBANKS ” DISRUPT THE BANKING LANDSCAPE?

LAURENT CLERC (ACPR)

Introduction

- ❑ “*Neobanks*” design all financial stakeholders and intermediaries that offer online banking services or banking services accessible through mobile-only applications
- ❑ These new players have grown rapidly over the past 20 years in France, and even more recently with pure digital players.
- ❑ The paper is based on the results of a bi-annual survey carried out by the ACPR

Main issues addressed in the paper are related to:

- ❑ Initial customer contact, KYC and level playing field
- ❑ The extent to which neobanks will shake up the banking landscape and trigger disruptions
- ❑ The quest for profitability

4 families of key players operating in the French financial landscape

Neobanks or online offerings

- Initially created to capitalise on the development of internet in certain niche markets such as online brokerage or savings
- Give access to a wider range of financial products at very attractive rates

Distributor banks (“phygital”)

- Consist of players operating initially outside the banking sector and relying on a combination of physical network and financial offering
- objective of the distributor banks was to improve the profitability of the group's core business by providing banking services for the group's customers

Mobile pure player neobanks

- specialised in online payments and characterised by a 100% mobile interface and a lack of physical agencies
- “freemium” model, meaning free of charge for basic services and fee-based for top-of-the-range financial services (premium)

Bank as a service

- Facilitated by the two directives on payment services (PSD1 and PSD2) which allowed for the emergence of new stakeholders who do not necessarily hold a banking licence but who offer services related to payments using an agent model
- “B2B2C” (business to business to client) model, using APIs and acting as both producers and distributors of banking products and services

I. Initial contacts with customers

- ❑ **The initial contact with the customer is key**
 - Almost all neobanks offer exclusively remote initial contact for the account-opening process. In this context, speed and easiness in this process are key elements of competitiveness
 - In this very competitive environment, some neobanks propose welcome offers or free basic services

- **Level-playing field issues might arise as the AML-CFT requirements, although framed by the Fifth European Directive on AML-CFT, are specific to each Member State.**
 - These different requirements in terms of remote identity verification may result in a customer experience that may create competitive distortions

- ❑ **This was the case in France where the framework was modified in order to introduce:**
 - the possibility for financial institutions to use an electronic identification process of a substantial level (corresponding to a level of security equivalent to that observed when entering into a business relationship in a physical branch), without having to implement any other additional vigilance measure
 - greater flexibility with regard to the so-called "complementary" remote identity verification measures to enable financial institutions to use a wider range of technical solutions
 - The removal of the systematic requirement to verify the customer's place of residence prior to opening an account, a constraint impairing the fluidity of entry into a business relationship

2. Will neobanks shake up the banking landscape?

Links between traditional banks and neobanks

Neobanks	Date of creation/ date of approval	Legal status / personality	Links with traditional banks
Boursorama	1995/1998 approval : 25/07/2003	Credit institution	Subsidiary of Société Générale since 2002
Monabanq	1997/ 02/10/2006	Credit institution	Subsidiary of Crédit Mutuel since 2008
ING	Approval : ING direct 29/01/2002	Credit institution	Created by ING bank
Fortunéo	Approval : 13/09/2000	Credit institution	Subsidiary of Crédit Mutuel Arkéa since 2006
BforBank	Approval : 22/07/2009	Credit institution	Created by les Caisses régionales du Crédit agricole
Hello Bank	16/05/2013	Offer	Created by BNPP
N26	03/12/2015	Credit institution	German On-line bank
Nickel	11/04/2014	Credit institution	Subsidiary of BNPP since 2017
Revolut	15/07/2015	Credit institution	UK digital bank
Treezor	Approval : 21/06/2016	Electronic money institution	Subsidiary of Société Générale since 2018
Qonto	04/2016	Payment institution	Online banking for companies and the self-employed whose entrusted funds are confined to Crédit Mutuel Arkéa
C-Zam	04/2017	Offer	Offer of Carrefour banque
DITTO	2017 in France	Credit institution	On-line bank from Luxemburg (operating in France since 2017 – Subsidiary of Banque Travelex)
EKO	08/11/2017	Credit institution	Created by Groupe Crédit Agricole
Orange Bank	Approval 04/10/2016	Credit institution	Online banking launched following Orange's entry into Groupama Banque
Enjoy	09/2018		Created by Caisse d'Épargne
Ma French Bank	Approval : 25/01/2018	Credit institution	Created by La Banque Postale

2. Will neobanks shake up the banking landscape?

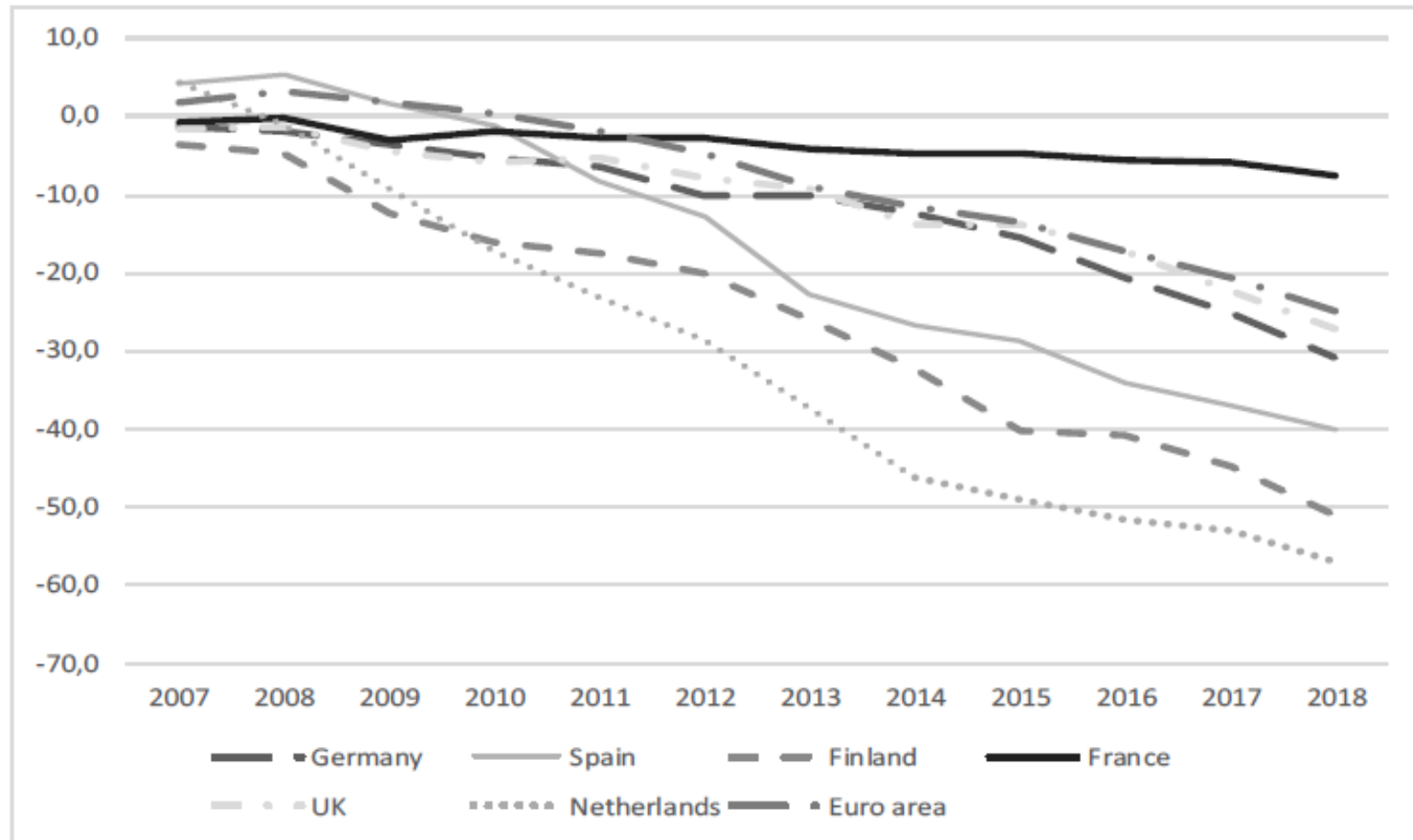
Range of products offered by neobanks

	Boursorama	EKO	Hello Bank	ING	Monabanq	Orange bank	Ma French Bank	Carrefour banque	DITTO	Nickel	Qonto	N26	Treezor	Revolut
Life insurance	X	X	X	X	X									
Property insurance	X	X	X		X									
Insurance of persons	X	X	X		X									
Discovered	X			X	X	X			X					
Consumer credit	X	X	X	X	X	X								
Home loans	X	X	X	X										
Non-financial products	X	X												
Current account	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Bank card	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Cash withdrawal / deposit		X	X	X	X	X		X	X	X	X	X		X
Check	X	X	X	X	X	X								
Transfer / direct debit	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Account information service	X	X	X	X	X		X							
Payment initiation service	X	X	X				X							
Securities account and PEA	X	X	X	X	X									
Brokerage services	X	X	X											
“Unregulated” bank book	X	X	X	X	X	X								
Regulated booklets (Booklet A, etc.)	X	X	X	X	X									
Mobile payment	X	X	X	X		X	X	X						

X

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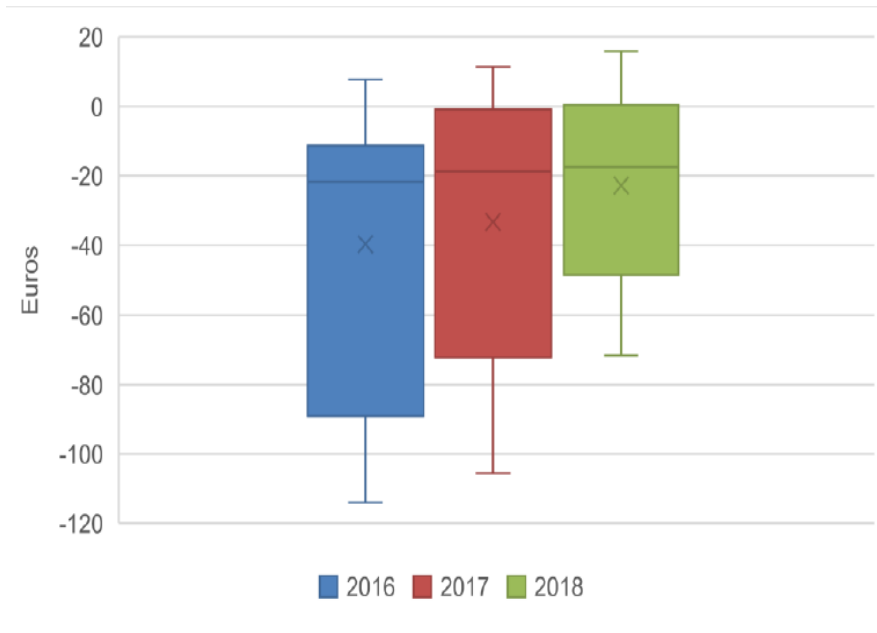
Developments in the number of banking agencies in Europe



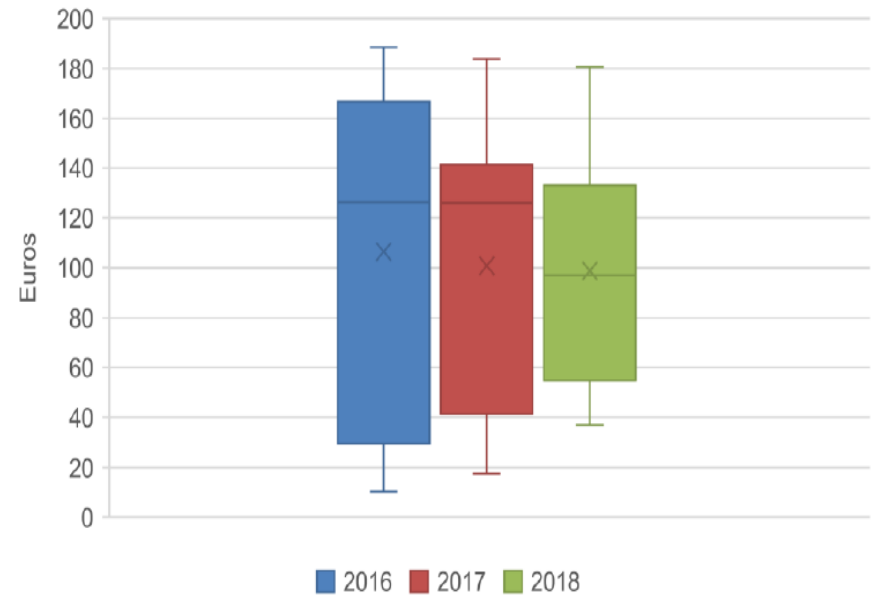
Source: ECB

3. The quest for profitability

Breakdown of net results by client

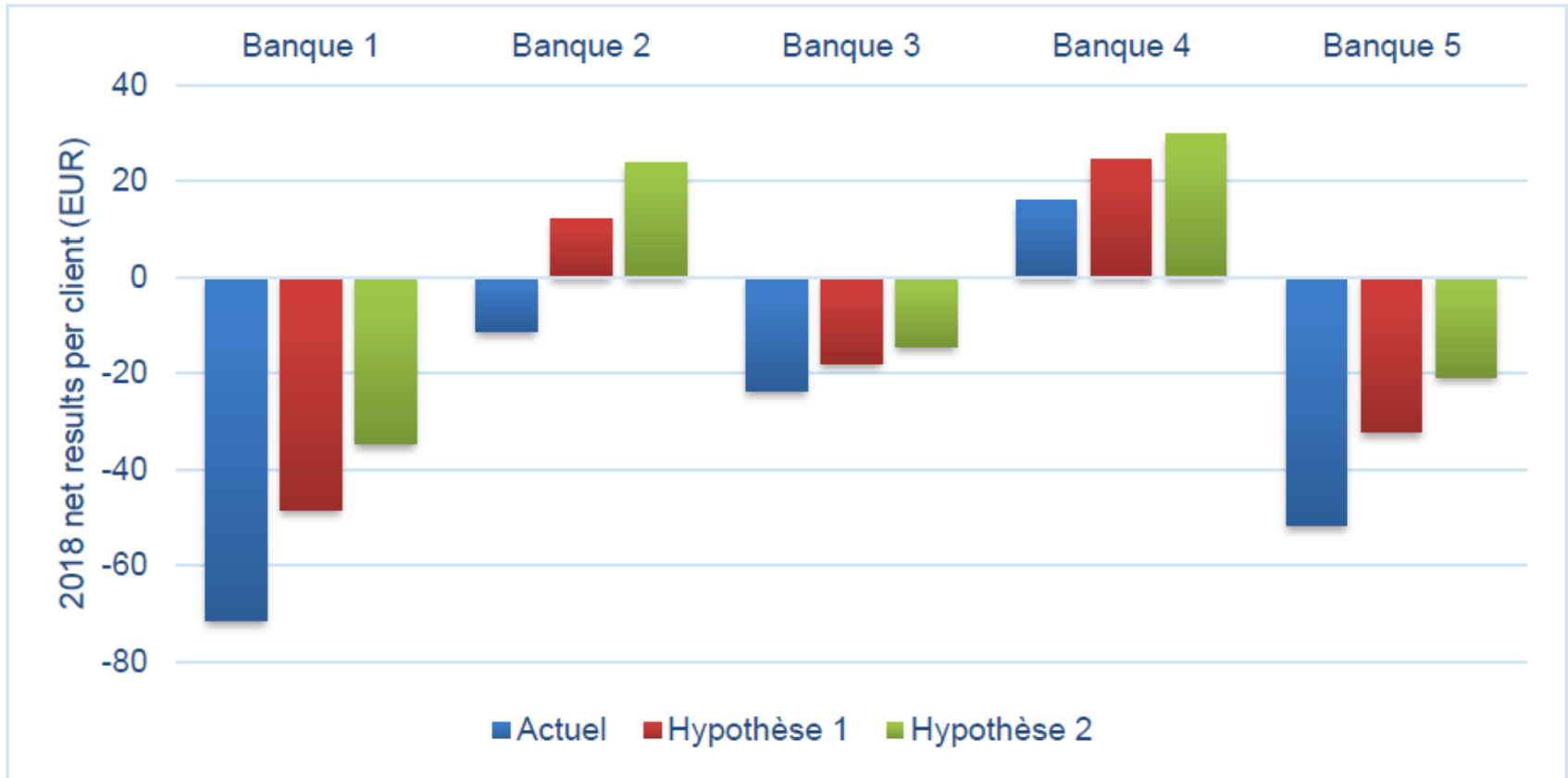


Breakdown of net banking income by customer



3. The quest for profitability

Analysis of the impact of customer acquisition premiums on net income per customer (2018)



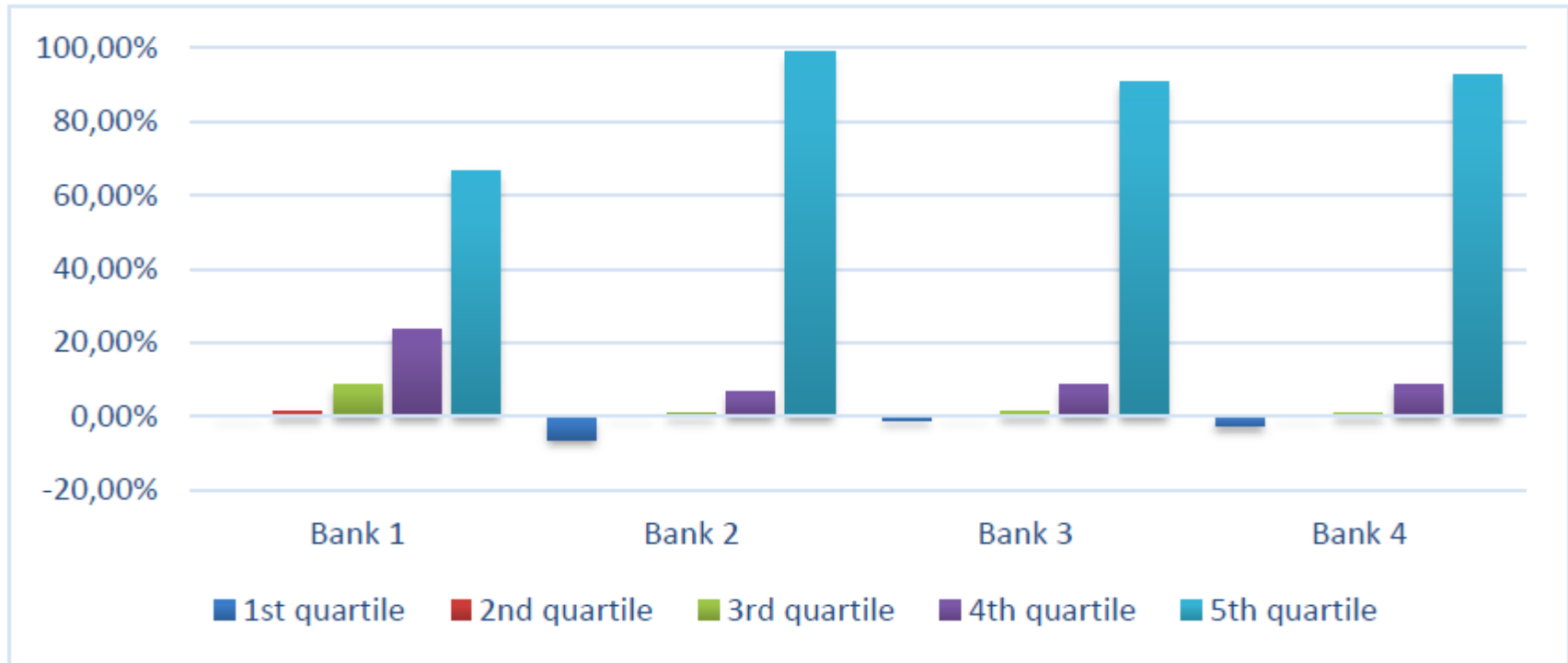
Assumption 1: 2018 net income is restated for all customer acquisition premiums, assuming that 25% of new 2018 customers were sponsored.

Assumption 2: 2018 net income is restated for all customer acquisition premiums, assuming that 100% of new 2018 customers were sponsored.

In both assumptions, the premiums for the new client and his possible sponsor are estimated at 80 euros

3. The quest for profitability

Breakdown of the NBI of a few neobanks by income quintile of their customers



3. The quest for profitability

- **The low profitability can be explained by the diversity of the strategies deployed by the stakeholders:**
 - Defensive strategies that notably emanate from the neobanks that are subsidiaries of traditional banks: their objective is not so much direct profitability as adapting to the more aggressive or innovative offers of their competitors, in particular the new purely digital players, in order to retain their clientele. In this case, profitability must be assessed in the light of the banking group's overall strategy.
 - Start-up strategies are adopted by Fintechs. Their main objective is to offer innovative products and to show rapid growth in turnover or customer base numbers in the hope of being bought out quickly by an existing bank, regardless of a real concern for profitability in the very short term.
 - Search for network effects, which consists of aggressively proposing a free service offering with the aim of very quickly capturing a large part of the customer base in order to increase, in a second stage, the rates or supplement the basic services with a more elaborate and paying premium offer

Conclusion: Future trends

- **Structural impact of the COVID-19 too early to assess but...**
 - French consumers discovered on-line banking services during the lockdown period
 - Heterogeneous impact however across on-line banking activities
- **Changes in customer payment habits, and banking services more generally, can be extremely rapid:**
 - e.g. developments in contactless payment technology
 - Recent developments in mobile payment

Conclusion: Future trends

■ The platform era?

- Unlike in China and in the USA, financial platforms (offering banking, financial and payment services via a single platform) are not well developed in France
- By connecting the two sides of the market (consumers and financial/banking service providers), the platform acquires or retains a monopoly, which it can use to maximize the participation of the most price sensitive population (consumer)
- This market structure may put banks at a disadvantage, especially if some new entrants have a already large customer base (GAFAM / BAXT)
- No major entry of GAFA into French banking services yet, except payment, probably due to a lack of mature BaaS offer to develop the activity and the cost of banking regulation