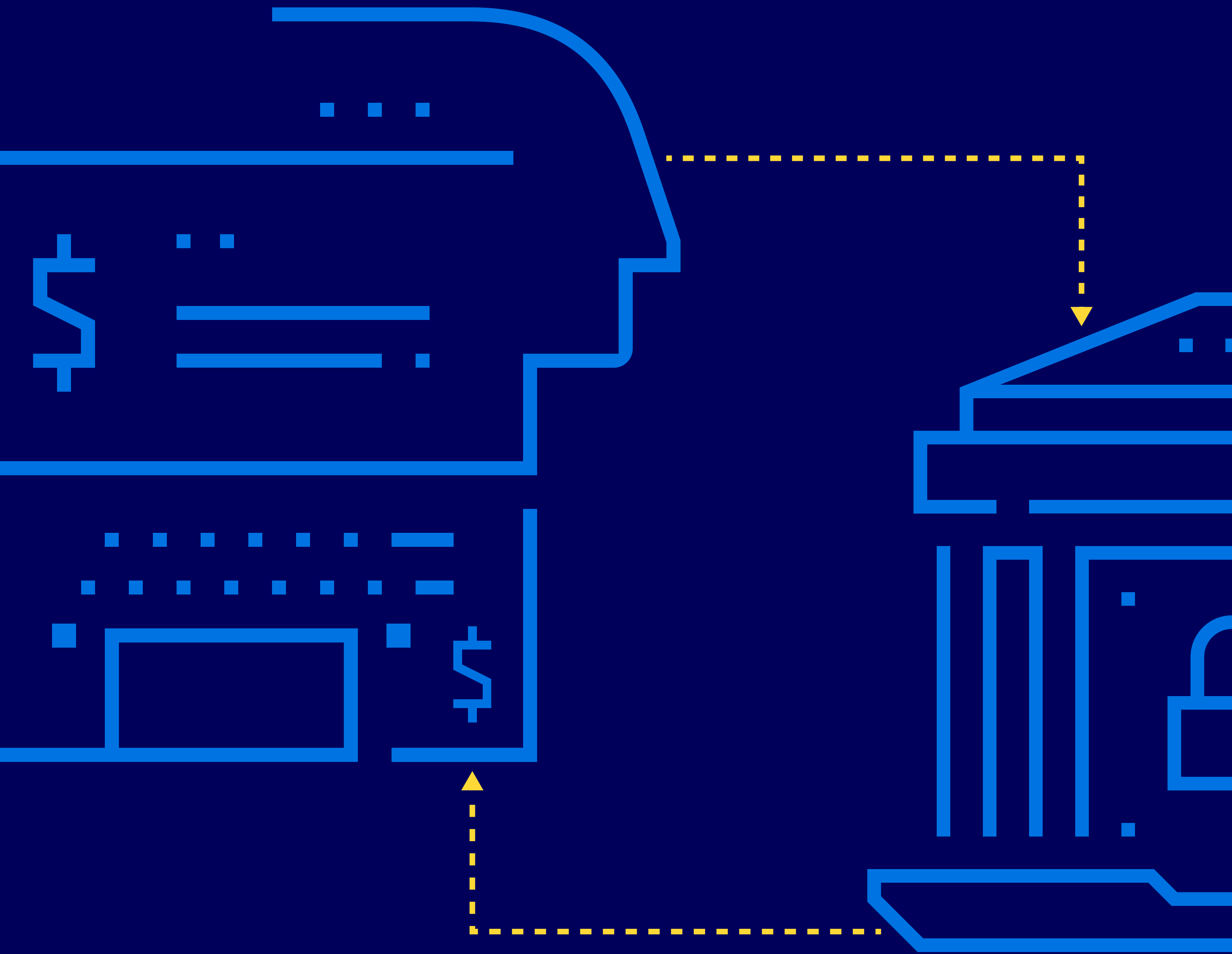
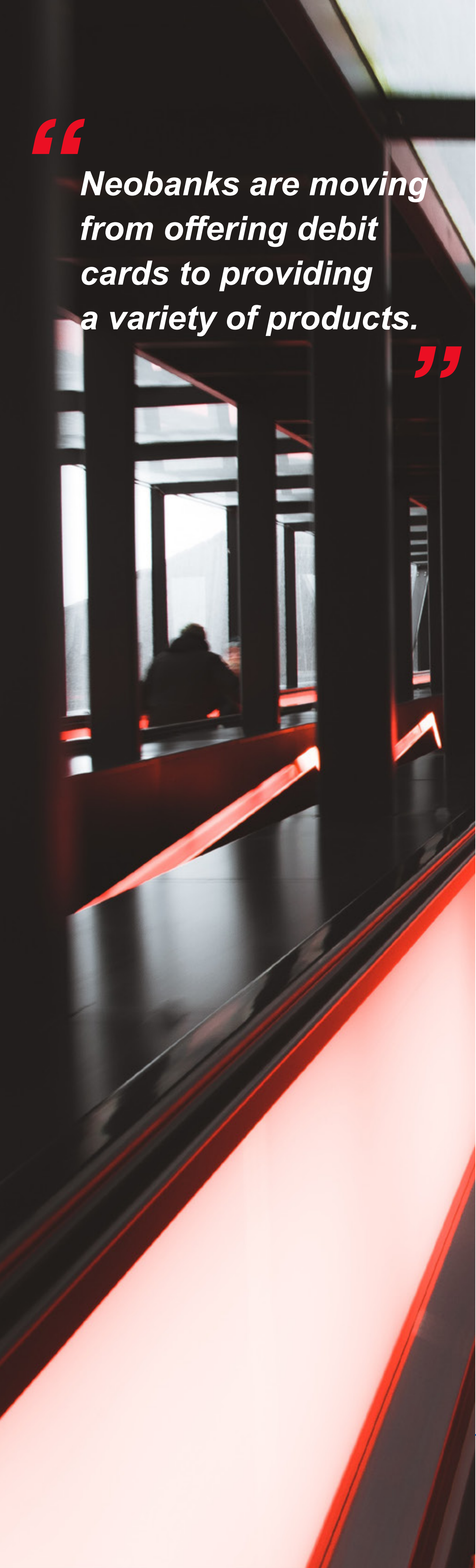


BEYOND BANKING

WHAT TRADITIONAL BANKS AND NEOBANKS
CAN LEARN FROM EACH OTHER?

CONTENTS



INTRODUCTION

It’s no secret that incumbent banks are facing increased competition from multiple corners of the digital world, including large technology companies and digital-only challenger banks, often called neobanks. The latter are expanding swiftly, making the most of cutting-edge digital technology like data analysis and artificial intelligence to win over customers.

Many **traditional players** under threat still **struggle with making progress in digital transformation** and continue to lag behind in online and mobile banking capabilities. Think about this: on average, non-traditional current account providers in the UK offer **42% more features** within their mobile apps than incumbents and are **nearly twice as fast** when it comes to average log-in times[1].

Traditional banks will have to pick up the pace or they will lose significant share in certain market segments. The biggest digital-only startups are moving from offering pre-paid debit cards to providing a variety of other products, like full current accounts, loans, insurance and more.

Banks really can’t afford to be left behind.

[1] Mobile Banking App Review 2018: Reloaded, Optima Consultancy, November 2018

We present strategies banks can adopt to catch up with disruptors.

In this white paper, we'll show you how neobanks benefit from not being burdened by legacy systems and focusing on providing exceptional customer experience. Through a number of use cases, **we'll present strategies banks can adopt to catch up with disruptors.**

The last section will look at **what banks** and even digital-only challengers **can learn from large technology companies** about building customer relationships and enhancing user experience. Also, we'll discuss the **pros and cons of joining forces with big techs** to quickly gain market share and gain new digital customers.

A NOTE ON TERMINOLOGY

We'll use the terms **neobank and digital-only challenger bank interchangeably,** although neobanks usually don't have their own banking licence and offer bank-licensed products through partners.

However, as many customers tend to focus on the quality of the service provided rather than the provider's licensing background, the term neobank is increasingly accepted in a wider sense to refer to any digital-only challenger. This report uses this wider definition.

[2] What is a neobank really?, PA Consulting

NEOBANK REVOLUTION:
WHY IS IT A THREAT

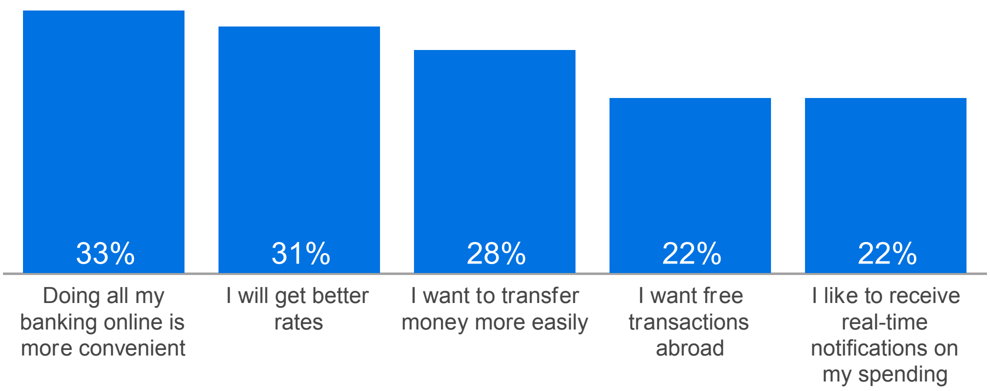
Digital-only challenger banks, often referred to as neobanks, broke into the market a few years ago in response to the rising demand for simple, quick and hassle-free online and mobile services. Their appeal to users lies in their ***ability to challenge traditional banks****' old-school business model by charging customers low and transparent fees, while offering* ***faster services and a better user experience***[3].

[3]The challenger bank playbook, CB Insights, March 2018

USERS LOVE NEOBANKS FOR MANY REASONS

Convenience, in fact, is the number one benefit why users switch to neobanks in the UK, which has seen the most challenger bank activity in comparison to other regions. About 9% of British adults, **4.5 million people**, have already **opened an account with a digital-only bank** and another 16%, an estimated **8.5 million people, plan to do so in the next five years**[4].

Top 5 reasons for switching to digital-only banks*



* Based on a survey of 2,000 British adults commissioned by Finder and conducted by research provider OnePoll in November 2018.

Source: Finder

Neobanks are also benefiting from ***customers' frustration with their primary banks****, often stemming from uncompetitive pricing, unexpected fees or not-so-user-friendly services[5]. If these issues are not addressed, the top 10 retail banks in the US can lose as much as* ***$16 billion in revenues****,* ***$344 billion in retail deposits*** *and* ***11% of their clients to rivals****, including digital-only players[6].*

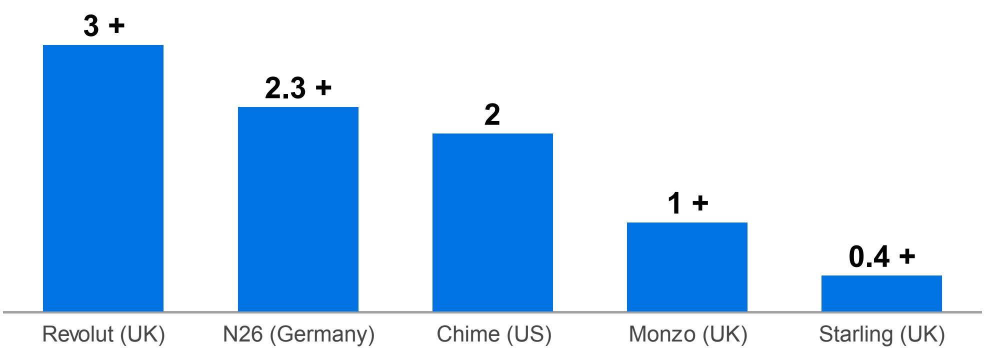
[4] Digital-only bank adoption, Finder, January 2019
[5] The 'Neo-Banks' Are Finally Having Their Moment, The New York Times, November 2018
[6] Retail banking vulnerability study, CG42, June 2018

BRACE FOR THE NEXT WAVE OF EXPANSION

Fintech startups in banking already have **more than 15 million users** in total[7], including nearly 9 million customers acquired by digital-only banks that are independent from traditional banks or big tech companies.

Their customer base is expected to further increase as several players, like *Revolut* in the UK and *Xinja* in Australia, obtained banking licences in late 2018 and plan to provide **full current accounts and more profitable lending products** in the near future. Others, like Germany's *N26*, is looking into expanding into new geographical markets, including the US.

Number of users at key neobanks not owned by a bank or a tech firm (million)

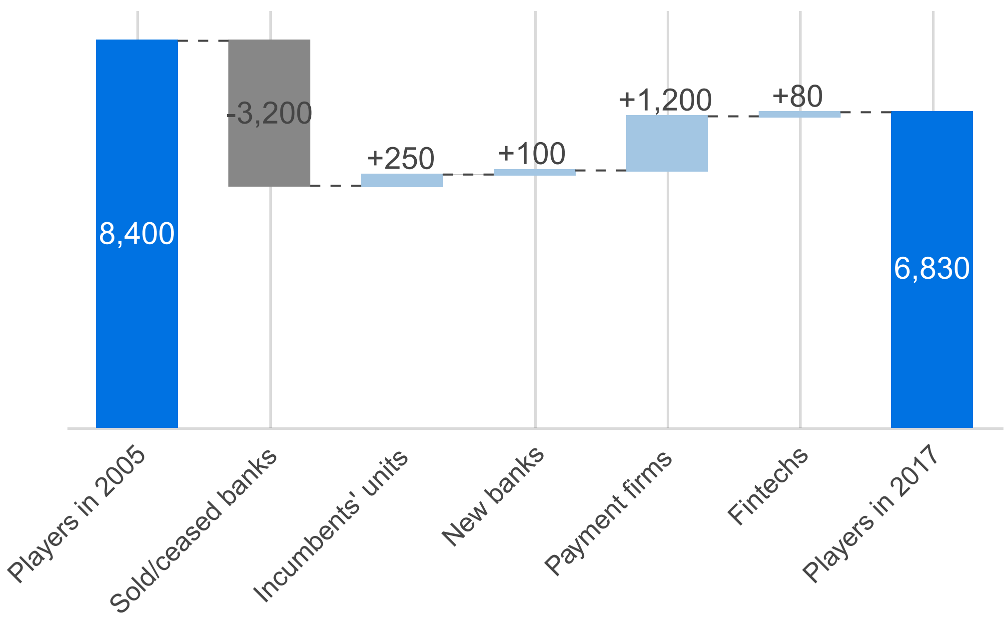


Source: CB Insights, corporate websites

[7] Global Fintech Report Q3 2018, CB Insights

Building scale has been a priority for many neobanks, even if it affects profitability[8]. And whether or not digital-only players will be able to convert their ever-increasing customer bases into sustainable profits in the longer term remains a question[9]. But investors see the potential in challenger banks, having poured more than **$2.8 billion** of capital into these startups globally since 2014, including a whopping **$745.4 million** in the first quarter of 2018 alone[10].

Change of banking & payment market in Europe (number of players)



Source: Accenture

One thing is for sure: digital disruptors, including neobanks, started eating away at the revenues of incumbent financial institutions. About **20% of the 6,800** financial services companies operating in Europe in 2017 entered the market after 2005 – including 100 newly licensed banks and about **80 fintechs**. These new players have captured **6-7%** of total European banking and payment revenues, or an estimated **€54 billion** in 2016[11].

[8] 10 ways neobanks set themselves up for success, Prototypr, November 2018
[9] Germany's N26 becomes Europe's top fintech with $2.7bn valuation, Financial Times, January 2019
[10] Challenger Banks raised record amount of capital in Q1 2018, Fintech Global, June 2018
[11] Star shifting: Rapid revolution required, Accenture, October 2018

WHAT BANKS CAN LEARN

FROM DIGITAL CHALLENGERS

Traditional banks must act now if they want to avoid losing customers and revenues to neobanks. As a first step, it’s a good idea for them to **examine what strategy digital-only challengers follow**, how they attract more and more users, and what lessons they can teach incumbents with limited digital progress.

> *Traditional banks must act now if they want to avoid losing customers.*

CHECK OUT HOW NEOBANKS DO IT

The business strategy of digital-only challengers includes some common elements that have contributed to their dynamic growth and increasing popularity among users in recent years. The following factors have traditionally given neobanks a significant advantage over traditional banks.

LOWER OPERATION COSTS

With no branches or extensive legacy IT systems to maintain, digital-only startups can run with relatively low operation costs.They automate functions and use **cloud-based infrastructure** instead of on-premise systems, which also contributes to favourable **servicing costs** that can be **40-70% lower** than the expenses of mainstream banks[12].

LOWER FEES, HIGHER RATES

Neobanks usually charge their customers low or **no fees** and provide higher-than-average interest rates on savings thanks to their lower operation costs. **Getting better rates** and **free transactions abroad** are among the top five most important reasons why people switch to digital-only players (according to 31% and 22% of customers, respectively[13]).

FASTER PRODUCT LAUNCHES

Digital-only players have been largely relying on partnerships and teaming up with third-party companies to bring **various products** and customer solutions to market **as quickly as possible**. These partnerships, often developed into entire digital ecosystems or marketplaces, help neobanks **save time and money** and be able to react to changing customer demand in a more flexible way.

[12] The bank of the future, Citi Research, March 2018
[13] Digital-only bank adoption, Finder, January 2019

LEVERAGING TECHNOLOGY

What prevents many traditional banks from following the strategy of neobanks is that they still operate multiple decades-old legacy systems. Banks spend about **70% of their IT budgets on traditional IT services**, like maintaining core systems, and **only about 30% on non-traditional solutions** related to digital transformation, such as cloud and data analytics[14].

Neobanks, however, use these solutions extensively along with other innovative tools like artificial intelligence, robo-advisors or biometrics, and leverage the latest technology to **take customer experience to a new level**. *Revolut*, for example, has begun offering **cryptocurrency support**, while *Monzo* and *Starling* are the only UK banks providing an **account switch service** in their app. This allows customers to change their main current account provider, switching all incoming and outgoing payments from one provider to another[15].

In another example of innovation, *Revolut*, *Starling* and *Monzo* now all offer 'pay people nearby' functions, a **P2P payment method** using Bluetooth to identify and pay other users. In June 2018, *Monzo* became the first bank to join forces with *IFTTT*, the world's biggest automation platform, to let its holders **connect their accounts to more than 500 services**, including *Twitter*, *Spotify* and *Instagram.*

Recent product announcements and new features

Revolut	saving (Vaults), pay people nearby (Near Me), app store for business banking (Connect), budgeting by spending category, commission-free trading platform, direct debits in euro, searching transactions
N26	saving (Spaces), voice-based app control (Siri Shortcuts), new card (N26 Metal), web app interface re-design, adding Apple Pay in Ireland
Starling	personal loans, joint accounts, business accounts, pay people nearby, adding Samsung Pay and Garmin Pay, vertical debit cards, accounts to 16 and 17-year-olds, gambling blocker, banking-as-a-platform APIs
Monzo	business current account, joint accounts, pay people nearby (Nearby Friends), cash deposits, saving targets (Pots Goals), fingerprint support for payments, international transfers (through TransferWise), accounts to 16 and 17-year-olds, managing direct debits (Bill Tracker)

[14] The bank of the future, Citi Research, March 2018
[15] Mobile Banking App Review 2018: Reloaded, Optima Consultancy, November 2018

LOWER RISK AVERSION

Incumbents also tend to be **more risk-averse** when it comes to offeringinnovative digital services and are often held back by their own **conservative approaches**[16]. Neobanks, by contrast, seem less afraid of experimenting and learning from their failures. They are not limited by lengthy bureaucratic procedures and are more likely to **talk to their customers** about their needs before launching any new products[17].

BETTER USER EXPERIENCE

Digital-only challengers have certainly raised the bar in satisfying customer needs by offering **fast, seamless and personalised services**. They respond to feedback by adding features users love, like real-time balances, transaction alerts, budgeting tools and personal finance solutions. Putting a bigger focus on **user experience** also explains why neobanks' **satisfaction ratings** (**76%**) exceed that of the top 50 global banks (**69%**) in the UK, the US (**83% vs 67%**) and Germany (**82% vs 60%**)[18].

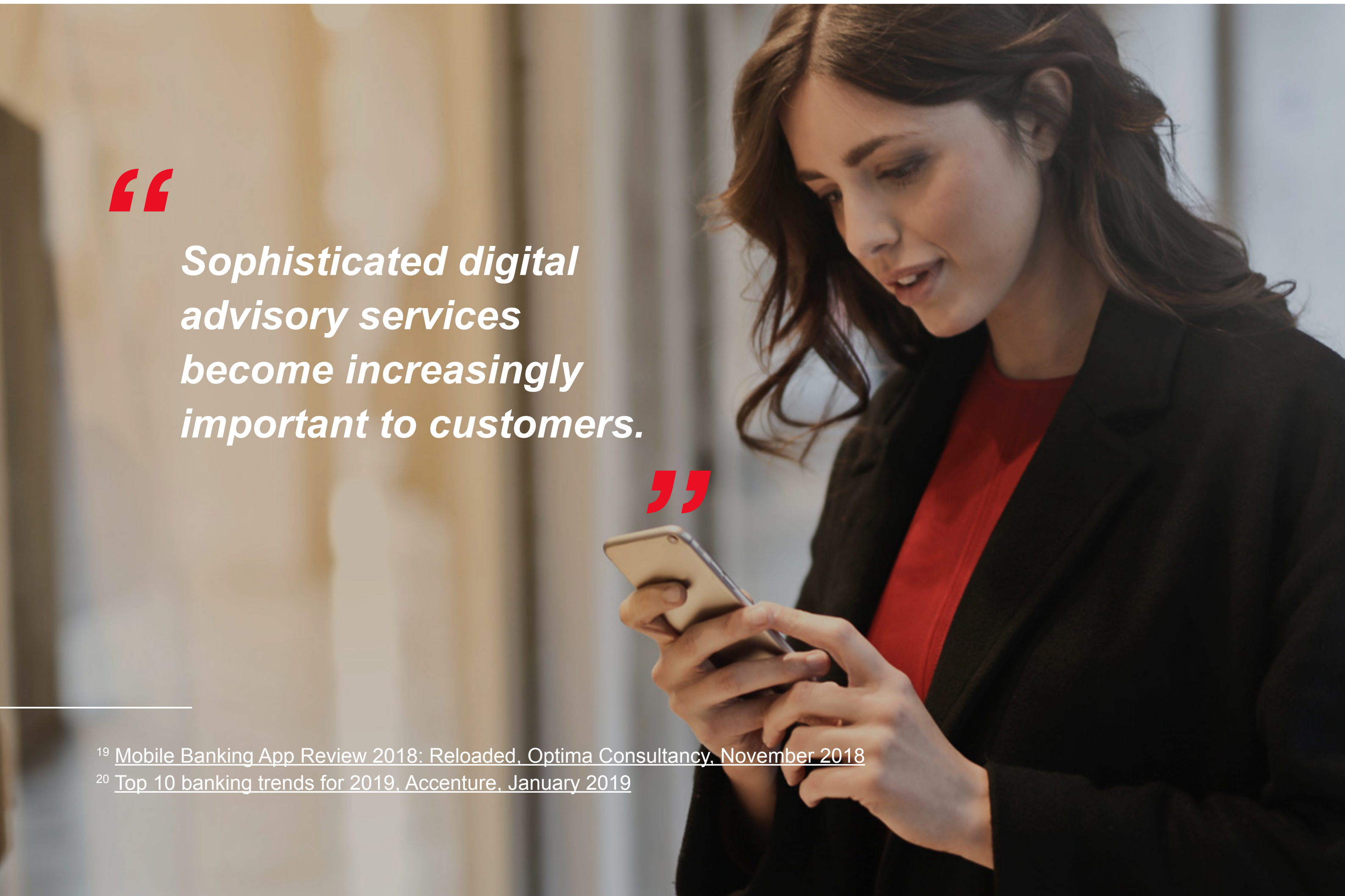
[16] Star shifting: Rapid revolution required, Accenture, October 2018
[17] What's the next opportunity for neobanks?, Capco, November 2018
[18] FIS PACE Insights 2018

CUT THE LAG IN APP FUNCTIONALITY

*Current differences between neobanks and incumbents are best reflected by the **speed and diversity** of services available in their **mobile banking apps**.*

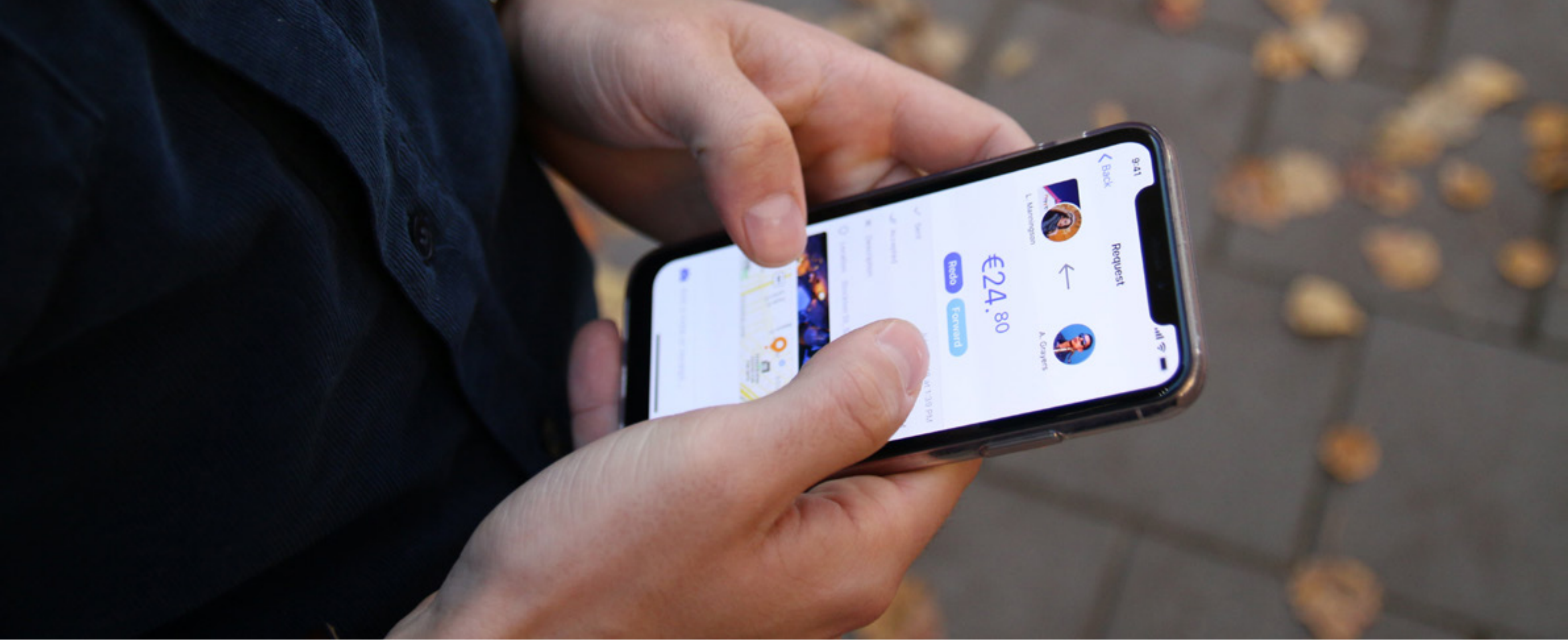
By November 2018, the average **log-in time**, for example, **fell to 7.5 seconds** from 8.1 seconds within just six months, with startups remaining **twice as quick as incumbent banks**, according to a review of banking apps in the UK[19].
On average, non-traditional current account providers have **42% more features** within their mobile apps than established players and they are adding more functions to their service than traditional banks.

The biggest difference remains in money management, where **startup players** offer **9.6 features on average**, compared to **only four** functions provided by **incumbents**. These four features (search, view balances, view transactions and customise notifications) only provide basic insights for users. This is an area where traditional banks really need to improve, as sophisticated digital advisory services are expected to become increasingly important to customers[20].



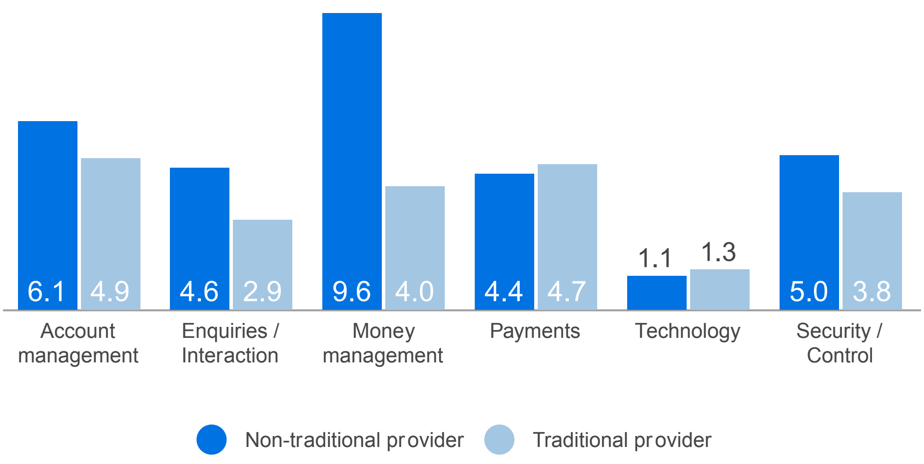
"Sophisticated digital advisory services become increasingly important to customers."

[19] Mobile Banking App Review 2018: Reloaded, Optima Consultancy, November 2018
[20] Top 10 banking trends for 2019, Accenture, January 2019



Real-time balances are only supported fully by **32%** of the reviewed apps and instant updates to the **main balance** are exclusively provided by **digital-only challengers**. Neobanks also tend to send **smarter notifications to their users**. *Starling* alerts customers if their direct debit payment is due the following day and *Monzo* sends messages about upcoming direct debits as well as travel insight.

Average number of supported features in UK banking apps (Q3 2018)



Source: Optima Consultancy

Enquiries and interaction is another category of app features where neobanks have a clear lead over traditional banks. For instance, *Starling* and *Monzo* both added joint accounts in the third quarter of 2018, and the latter also rolled out a feature allowing users to **dispute certain transactions entirely** within the app.

LET YOUR OWN DIGITAL BANK GROW

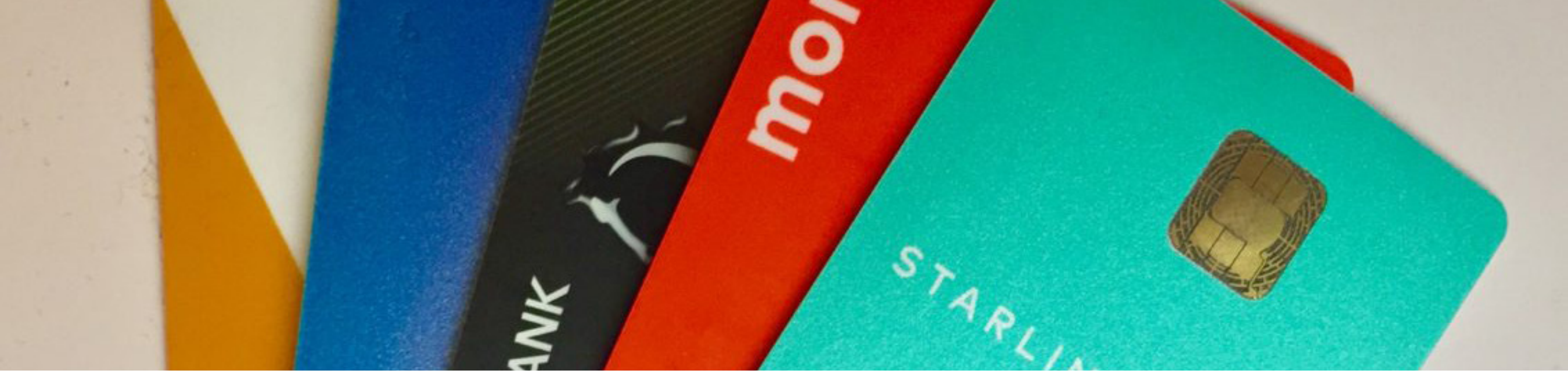
In recent years, several incumbents have decided to establish ***stand-alone digital-only*** *banking units under separate brands to tackle competition from neobanks and satisfy demand from digitally active customers.*

Digital banks can help **cut operations costs by up to 70%** compared to traditional banks, while **generating returns on equity** of more than **15%**. However, they can take three to four years to break even and require heavy investment in marketing[21].

Adding higher-margin credit products to account and payment services can be vital **to increasing income**. What led to Zuno's failure was the lack of loans: even though the direct banking unit of Austria's Raiffeisen Bank, set up in 2010, acquired 255,000 customers, it was shut down in 2017[22].

Former Zuno CEO Oyvind Oanes reportedly said that the only mistake they had made was that they hadn't started building a credit portfolio from the get-go, which eventually led to their **inability to produce revenues**[23].

[21] Ten lessons for launching a greenfield digital banking business, McKinsey, October 2018
[22] Zuno Bank shuts ops in Czech Republic, Slovakia, S&P Global, June 2017
[23] Finding a business model for challenger banks, Tomáš Vyšný, Medium, March 2017



Acquiring already existing neobanks can also turn out to be a bumpy road for traditional banks. French incumbent **BPCE bought German digital-only player Fidor** in 2016 and only two years later, it is reportedly seeking to sell it because of a "clash of cultures" [24]. In another example, US neobank *Simple* had difficulties moving customer accounts to a new platform[25] after being bought by Spanish incumbent *BBVA* in 2014. The buyer also took hefty write-downs for *Simple* after its **$117 million acquisition**[26].

Key neobanks fully or partially controlled by an incumbent bank

* fully acquired in 2014 ** fully acquired in 2016 *** partially acquired in 2015/2018**** partially acquired in 2019 Sources: Citi Research, The Financial Brand

Name	Key shareholder	Established
Simple (USA)	BBVA	2009*
Hello Bank (France)	BNP Paribas	2013
Atom (UK)	BBVA	2014***
Loot (UK)	RBS	2016****
Marcus (USA)	Goldman Sachs	2016
B (UK)	CYBG	2016
Pepper (Israel)	Bank Leumi	2017
Finn (USA)	JP Morgan Chase	2017

Source: Contact

Traditional banks setting up a neobank should consider building a **new infrastructure** for the **"parallel bank"** and using it as a sandbox to learn how to run a truly digital organisation. They shouldn't rush into integrating the new and old units, as the opportunities to experiment disappear with a merger. Also, building a neobank shouldn't preclude the original organisation from carrying out its own **digital transformation**[27].

[24] Clash of clans … or new bank versus old bank (Fidor, BPCE), The Finanser, November 2018
[25] Simple bungles customer account transition to BBVA, Finextra, April 2017
[26] What banking giant BBVA had to say about Simple, Portland Business Journal, February 2017
[27] The right approach to digital-only banks, American Banker, November

WHAT CHALLENGERS CAN LEARN

FROM INNOVATIVE BANKS

> ***"Innovative banks can maintain customer loyalty despite increased competition."***

Digital-only challengers have taken the lead in acquiring new banking customers by offering superb user experience. Yet, they can also learn a thing or two from innovative incumbents, which have managed to improve their market position and maintain customer loyalty despite increased competition from new players.

WORK TOGETHER ON COMMON SOLUTIONS

Banks can team up with each other to build segment-specific, industry-wide platforms that offer **competitive services** and **catch up with leading disruptors**[28]. The Swish mobile payment solution, for example, was launched by seven Swedish banks in 2012 and today dominates **P2P payments** and **merchant purchases**. The app is used by nearly **6.8 million people**[29], **about 67% of Sweden's population**.

Building on the success of local apps like *Swish*, a group of Swedish, Norwegian, Danish and Finnish banks announced plans in 2018 to develop a pan-Nordic payment system[30]. The future multi-currency system, to be named *P27* after the 27 million people living in the four countries, will enable domestic and cross-border transactions.

[28] In search of customers who love their bank, Bain & Co., November 2018
[29] Swish statistics, January 2019
[30] Nordic banks to launch new payments infrastructure plan in 2019, The Paypers, July 2018

BUILD ON EMOTIONS TO INCREASE LOYALTY

Banks can boost customer loyalty by **enhancing certain emotional elements**, like reducing customers' anxiety over managing their finances. For example, allowing cardholders to instantly freeze and unfreeze their accounts without cancelling their cards can help customers **worry less and feel more secure**[31].

Tailor-made services based on customer personalities can bring outstanding results for smaller, specialised financial institutions. For example, Swiss private bank *Bordier&Cie* has developed a **proprietary system** using algorithms and customer data to set up customer archetypes, such as the 'consumer' or the 'protector' and adjust their portfolios accordingly[32].

Talk about how advisory tools can blend **machine learning with human emotion**: *Morgan Stanley* has equipped its advisors with algorithmic assistants that send **multiple-choice recommendations** based on variables, such as market changes or customer life events. The project is expected to provide better solutions for wealthy families than "mere software allocating assets for the masses"[33].

"Banks can boost customer loyalty by reducing customers' anxiety over managing their finances."

[31] Explore the elements of value, Bain & Co., October 2016
[32] Sizing up clients' personalities to tailor their banking portfolios, The Straits Times, April 2017
[33] Morgan Stanley's 16,000 Human Brokers Get Algorithmic Makeover, Bloomberg, May 2017

LEVERAGE THE POWER OF PARTNERSHIPS

Many leading incumbent banks enter into partnerships with fintechs and **invest in digital startups**, including neobanks, to expand their digital capabilities, **gain market share**, acquire talent and speed up the development of digital products and services.

JP Morgan Chase, for example, relies heavily on digital partnerships to **scale product offerings** in several categories: it works together with online lender *OnDeck* to extend quick loans to small businesses, collaborates with fintech firm *Roostify* to provide a digital self-service mortgage platform and has also teamed up with *TrueCar* to offer digital car-buying and financing services[34]. Other digital frontrunners, like *BBVA*, have created entire ecosystems of fintech partnerships.

No wonder that half of US bank executives expect **fintech partnerships** to be a key trend in 2019, with digital account opening, payments and lending remaining the most important product areas for collaboration, according to a recent survey[35].

Fintechs bring their innovative mindset, agility, customer-centricity and digital infrastructure to the table, while incumbents can help fintechs scale better based on trust and brand recognition, and provide them with a distribution network[36].

[34] JP Morgan Chase, strategic update, February 2018
[35] What's going on in banking, Cornerstone Advisors, January 2019
[36] Banking + Fintech Collaboration: More important than ever, The Financial Brand, March 2018

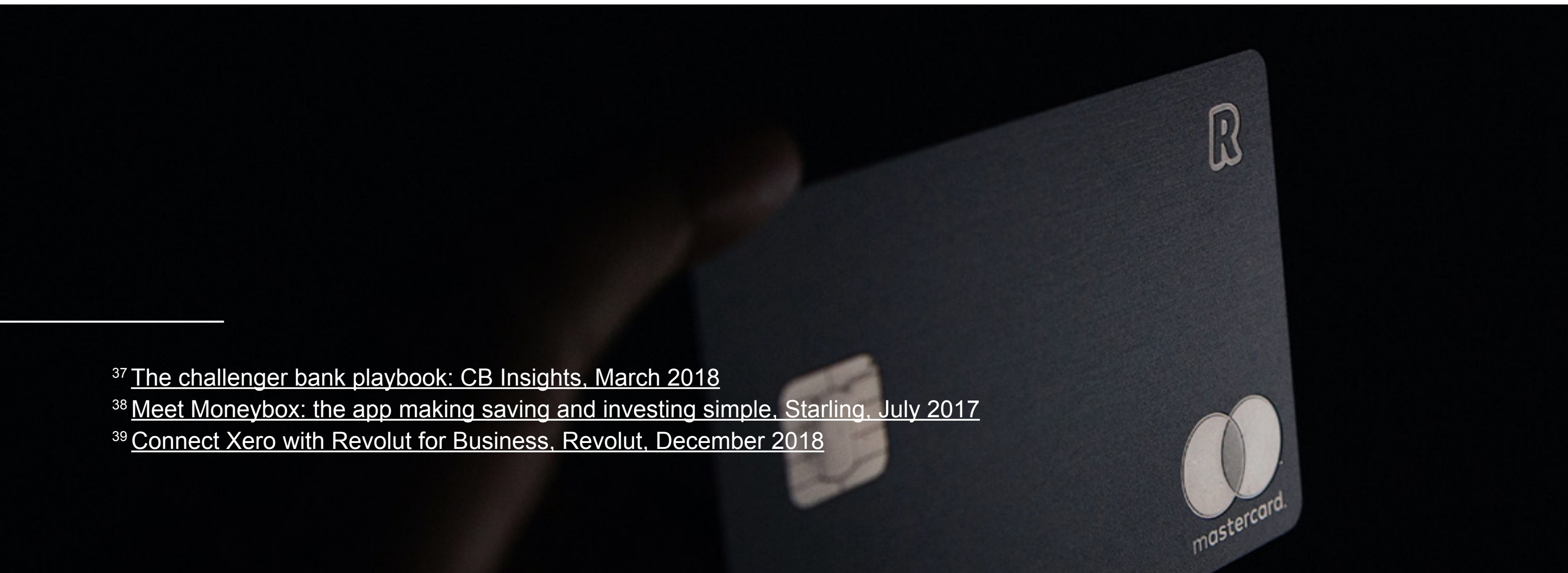
Several leading neobanks, like *N26*, *Revolut* and *Starling*, have already built partnerships with other fintechs to bring new services and functions to market faster. Digital-only banks are expected to forge further partnerships and create more application programming interface (API) marketplaces in the future, especially since the open banking standards in the UK and the second Payment Services Directive (PSD2) in the EU took effect. Leveraging APIs and enabled integrations is a **less expensive method** for rolling out new products and **attracting new clients**[37].

Examples of partnerships between neobanks and other fintechs

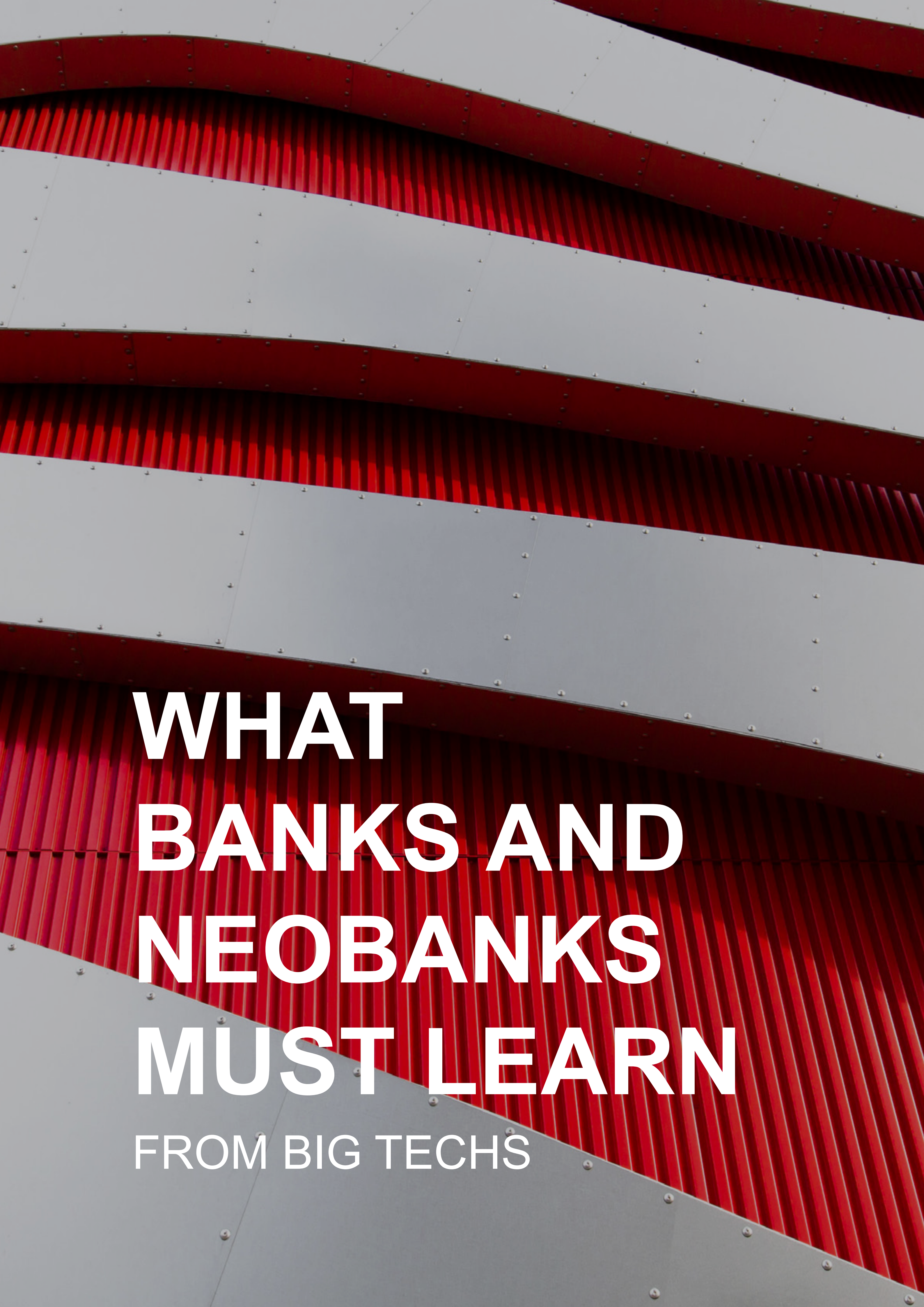
Revolut	PensionBee (pensions), Trussle (mortgages), Lending Works (insurance), Simple (line of credit), Xero (accounting)
N26	Barzahlen, TransferWise (payments), Clark (insurance), Auxmoney (lending), Raisin (saving), Vaamo (wealth management)
Starling	PensionBee (pensions), Habito (mortgages), Yolt (personal finance), Flux (digital receipt), Moneybox (wealth management)

Sources: CB Insights, corporate websites

Starling, for example, has teamed up with digital wealth management startup *Moneybox*, to allow customers round up their everyday purchases and invest their spare change in companies from all over the world through tracker funds[38]. *Moneybox* uses *Starling's* API to **connect accounts** with its system. In another example, *Revolut* has joined forces with cloud-based accounting platform *Xero* so customers can **link** their **business accounts with their accounting system**, automatically export and import spreadsheets, and track the financial health of their business almost in real time[39].

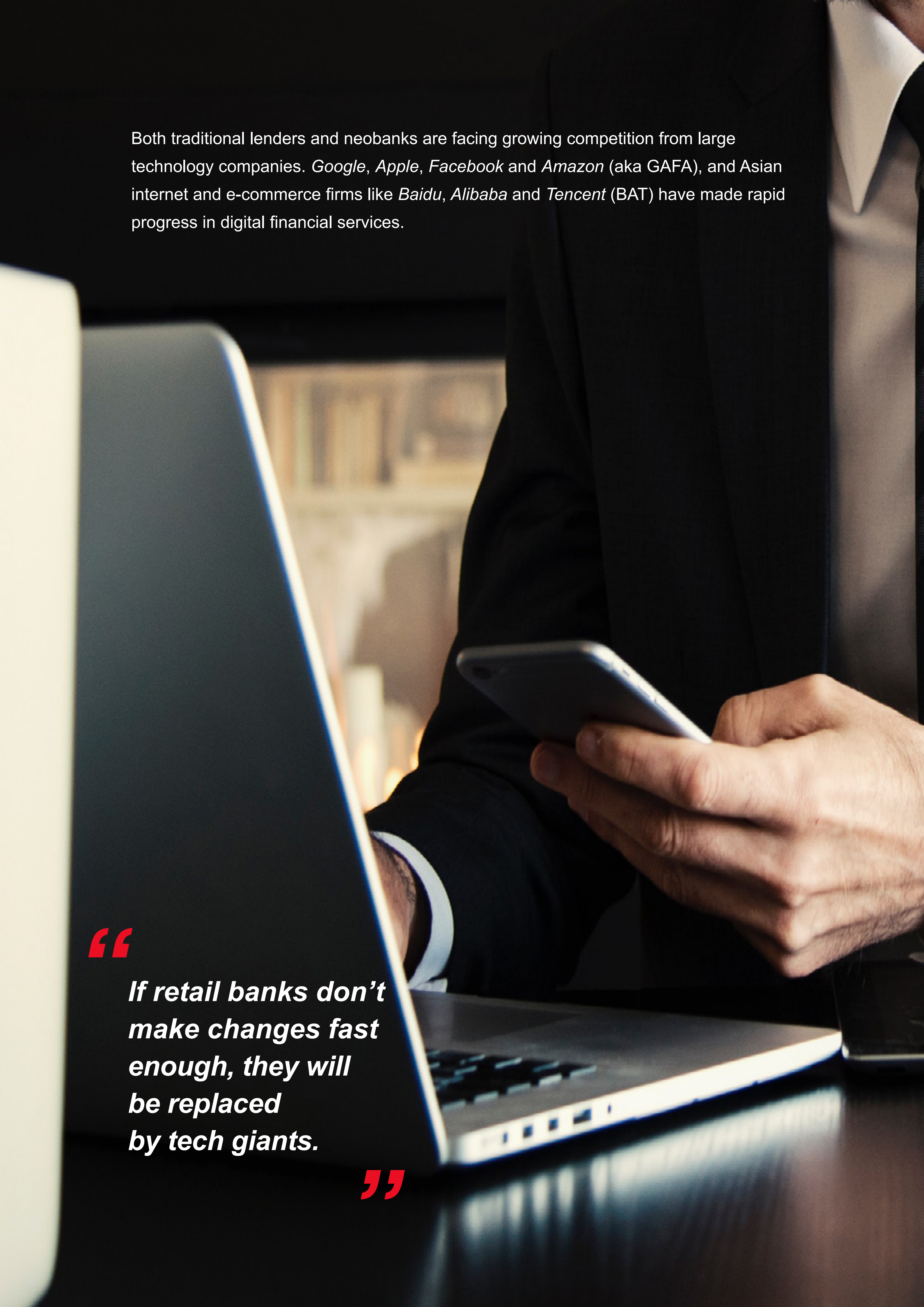


[37] The challenger bank playbook: CB Insights, March 2018
[38] Meet Moneybox: the app making saving and investing simple, Starling, July 2017
[39] Connect Xero with Revolut for Business, Revolut, December 2018



WHAT BANKS AND NEOBANKS MUST LEARN

FROM BIG TECHS



Both traditional lenders and neobanks are facing growing competition from large technology companies. *Google*, *Apple*, *Facebook* and *Amazon* (aka GAFA), and Asian internet and e-commerce firms like *Baidu*, *Alibaba* and *Tencent* (BAT) have made rapid progress in digital financial services.

> ***“If retail banks don’t make changes fast enough, they will be replaced by tech giants.”***

Amazon, for example, extended **$3 billion** in capital to 20,000 businesses in the US, the UK and Japan between 2011 and June 2017[40]. Similarly, *Alibaba* issued small business loans of about $63.4 billion in 2017, equalling 30% of the loans extended by the *Industrial and Commercial Bank of China*, the top small business lender in China[41].

If retail banks don't make changes fast enough, they will be replaced by tech giants, according to a survey of UK banking customers and executives by *Pepper*, Bank Leumi's digital-only unit[42]. About 66% of retail banking executives expect that **platform companies** will offer full banking services in the next five years in the UK and will **snatch clients both from incumbents and neobanks**. For all that, only 29% of customers believe **tech giants will overtake retail and digital-only banks**.

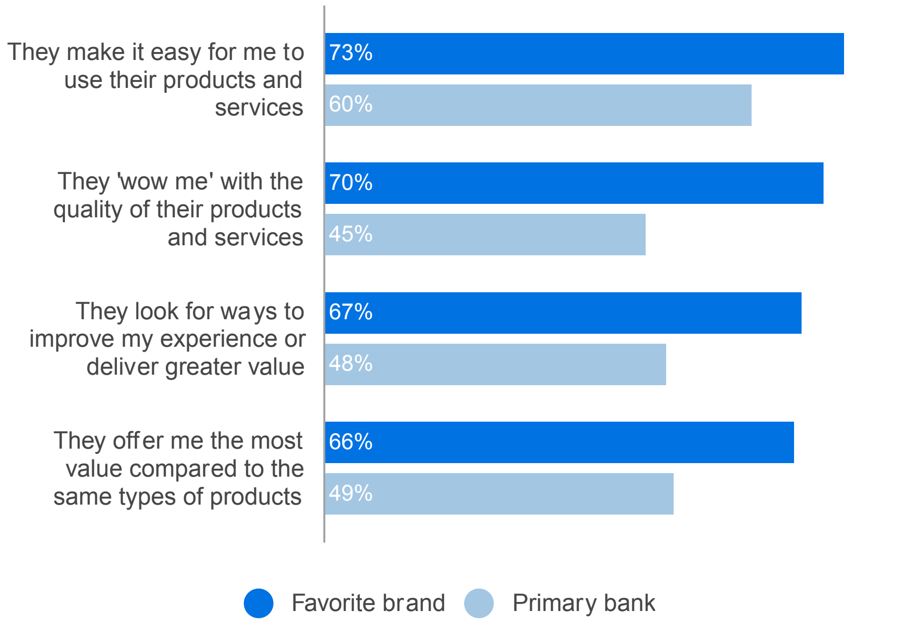
[40] Amazon vs. banks: Can financial institutions compete against the digerati?, BAI, October 2018
[41] Learning from China's Digital Disrupters, MTI Sloan Management Review, January 2019
[42] Change in banking, Pepper, 2018

AIM TO DEVELOP STICKY RELATIONSHIPS

Big techs enjoy several advantages over incumbent banks, ranging from a **large user base** and **low online acquisition costs** to big data insights supporting pricing and risk management, and internet banking licences. They tend to see expanding into financial services not as the ultimate goal, but a tool to further increase customer loyalty[43].

When it comes to the **quality and speed** of service, the biggest strengths of tech companies compared to traditional lenders include providing a first-class customer experience. Many consumers now have a **stronger emotional connection** with tech brands, like *Apple*, *Google* and *Amazon*, than with their primary banks, data from *Deloitte* shows[44].

How banks compare to favorite brands



% of respondents who agreed and strongly agreed

Source: Deloitte

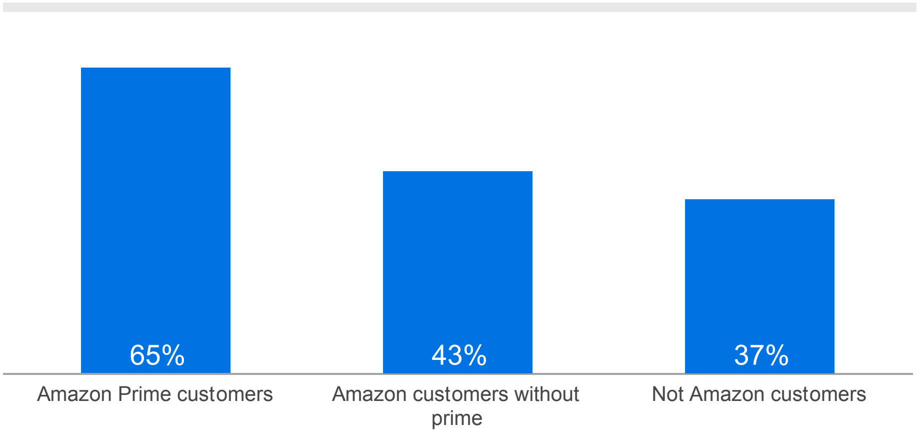
Banks must pay close attention to how they make their customers feel if they want to build sticky relationships[45]. Why? **Emotionally connected customers are more valuable**: the top 25% of respondents in *Deloitte's* study who ranked their bank the highest also had a **higher number of products with their primary bank**.
The list of favourite brands was topped by digital service providers, including *Apple*, *Google*, *Amazon*, *Samsung* and *Microsoft*.

[43] The bank of the future, Citi Research, March 2018
[44] Accelerating digital transformation in banking, Deloitte, October 2018
[45] How emotional connections create champions for your brand, Forbes, December 2017

SATISFY NEEDS, DON'T JUST PUSH PRODUCTS

While a bank of Amazon doesn't exist (yet), US consumers already give the tech behemoth much higher loyalty scores than they give banks, according to a recent survey[46]. The platform company is in an excellent position to expand into financial services: **37%** of people who don't even use Amazon for e-commerce purchases **would try its free online bank account.**

Potential take-up of a free online bank account offered by Amazon



Source: Bain & Co.

[46] Can Amazon Take Customer Loyalty to the Bank?, Bain & Co., September 2018

To **boost competitiveness** and fend off forays by big tech companies, retail banks have a lot to learn from Amazon in three key areas, as suggested by Bain&Co.[47]:

1. Banks should put their customers first and come up with innovative ways to satisfy their needs instead of simply pushing products.
2. When it comes to new initiatives and propositions, incumbents need to learn how to move faster, “discarding decision-making by committee”.
3. Retail institutions can access new distribution channels by joining forces with tech companies so that they can enhance data science capabilities and experience design.

The best defence is a strong offence: proactively **developing personalised digital solutions** is the best strategy to prepare for the inevitable competition from tech giants, according to digital banking expert *Jim Marous*[48]. He believes this will most likely involve “new partnerships inside and outside of traditional banking organizations and a redefinition of what a banking ecosystem includes”.

[47] Banking’s Amazon moment, Bain & Co., March 2018
[48] How digital banking can protect against the big tech invasion, The Financial Brand, November 2017

> *"Some of the banks choose to team up with tech giants to generate more digital revenues."*

TEAM UP WITH BIG TECHS, IF YOU DARE

While most traditional banks are bracing for increased competition from big techs in financial services, some of them may choose to **team up with platform giants** to generate **more digital revenues**. What's more, banks can now work together both with fintechs and big techs at the same time.

Alibaba, for instance, has partnered with online lender *Kabbage* to offer point-of-sale loans of up to **$150,000** to small businesses in the US to help them finance their orders on Alibaba.com in a **new programme called Pay Later**[49]. The collaboration also includes *Kabbage's* Utah-based banking partner *Celtic Bank*, which issues all the fintech's loans in the US, including those extended to *Alibaba* customers[50].

The cooperation **creates value** for all three partners involved: *Alibaba* benefits from *Kabbage's* ability to leverage big data and machine learning, and determine eligibility faster than a traditional bank, while *Kabbage* connects directly with small companies looking for access to cash[51]. As part of the deal, *Celtic Bank* can further increase the volume of credit it extends to customers through *Kabbage*.

[49] Kabbage to provide point-of-sale loans to Alibaba shoppers, American Banker, January 2019
[50] How does Kabbage work with Pay Later program?, Alibaba, 2019
[51] Alibaba taps Kabbage to loan up to $150K to SMBs, Tech Crunch, January 2019

The fastest way for **traditional banks** to boost digital revenues can be **teaming up with platform companies**, according to Accenture[52]. *JP Morgan Chase*, for example, has joined forces with *Amazon* to issue credit cards with cash back to Amazon Prime members, **gaining access to 100 million** Amazon Prime **customers worldwide**. And that's not all. The two companies have reportedly started talks about launching an **Amazon-branded current account**[53].

Partnerships of banks and tech companies in China

Incumbent bank	Tech firm	Collaboration
Bank of Communications	Suning Holdings	Financing, smart finance, cash management
China Construction Bank	Ant Financial	Distribution of wealth management products
Industrial and Commercial Bank of China	JD.com	Retail financing, corporate credit, asset management
Agricultural Bank of China	Baidu	Financial technology, customer profiling, credit evaluation
China CITIC Bank	Baidu	Online banking (establishment of digital-only Baixin Bank)
Bank of China	Tencent	Financial technology (establishment of a joint fintech lab)

Sources: South China Morning Post, China Daily

[52] Star shifting: Rapid revolution required, Accenture, October 2018
[53] Next up for Amazon: Checking accounts, The Wall Street Journal, March 2018

> ***Banks may regret joining forces with big techs in the long run.***

Partnering with tech giants may be beneficial for incumbents but it can also be a risky business. Accenture warns that these **partnerships are often asymmetrical**: when negotiating with banks about signing them up for its *Apple Pay* business, *Apple* demanded all players to accept the deal at the same time so that none of them could get a bigger market share and request better conditions.

Banks may regret joining forces with big techs in the long run because they help them become strong competitors, *Accenture* says. The balance of power between *JP Morgan Chase* and *Amazon* has reportedly shifted in the big tech's favour and the bank is now trying to figure out "how to avoid becoming its latest casualty," *The Wall Street Journal* has reported[54]. But *JP Morgan Chase* has also learned something from *Amazon*: **how to be obsessed with customer focus**.

[54] Jeff Bezos and Jamie Dimon: Best of Frenemies, The Wall Street Journal, January 2019

CONCLUSIONS

There is no denying that **traditional banks do lag behind neobanks** and tech giants in digital capabilities and often in customer-centricity too. But the game is not over yet and they can still fight back. To start with, they must carefully examine what elements they can adopt from digital-only challengers' strategies. They also need to better leverage the strengths they have over their fast-expanding competitors.

Most importantly, incumbents must learn how to **focus on customer needs** and become obsessed with customer focus, just like *Amazon*, *Google* and other platform companies. They should build more on **emotional banking techniques**, like reducing customers' anxiety, to boost loyalty and develop sticky user relationships.

Incumbents should also improve their mobile capabilities, and extensively **use data and artificial intelligence tools** so they can wow customers with the speed and quality of their digital offerings.

Legacy banks may also consider **establishing their own digital banking** units as a way of picking up the pace, but these subsidiaries shouldn't be built on the parent institution's old-school core systems. Instead, **greenfield banks**, or parallel banks, should grow all on their own and help their parent bank learn how to run a **completely digital organisation.** The integration of the new and the old should never be forced.

Partnerships with peer incumbents in certain market segments could also result in **higher market share**, just like teaming up or **investing in smaller neobanks** or other startups. Joining forces with some of the big tech companies may offer even better opportunities for **customer acquisition**, but traditional banks shouldn't let the balance of power shift to these giants.

Putting customers first, moving faster with innovations, significantly improving digital capabilities and selecting the right partnerships to increase revenue and expand distribution channels – these tools can all help **incumbents fight back against competitors** in the digital banking ring.

> ***"Incumbents must become obsessed with customer focus."***

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