

# Challenger Banks



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# Challenge #1: Increasing FinTech competition

As with other industries, digital disruption is everywhere in banking. With the increased use of the Internet to buy banking services, banks are no longer just competing with traditional local competitors. [New FinTech options including](#) Square, PayPal, Wealthfront, Betterment, and many others offer some banking services with zero fees.

***Banking success strategy:*** Investment and collaboration with FinTechs is becoming the norm. Major U.S. banks are [actually investing heavily](#) in their FinTech competitors, in order to form strategic partnerships to use their technology and profit down the road if the investments take off.

Source: <https://www.the-future-of-commerce.com/2019/12/23/banking-industry-challenges/>

# Challenge #2: Purposeful digital transformation

According to Deloitte, many banks have embraced digital transformation across the entire value chain. Technologies that enable transformation have become more powerful, accessible and easier to implement. The question is, how much of it is purposeful and strategic, and how much of those efforts are simply investing in technology for the sake of becoming a tech company?

***Banking success strategy:*** Banks should think of technology as a way to focus on customers, boost trust and manage the flow of capital. They should use data to sustain the best technologies that serve those purposes, including AI, automation, cloud and core modernization, [as leaders in digital transformation have.](#)

Source: <https://www.the-future-of-commerce.com/2019/12/23/banking-industry-challenges/>

# Challenge #3: Investing in mobile-first banking

Retail banking has become a mobile-first business. After all, mobile banking is all but a requirement for consumers at this point. In a mobile banking study, [89% of respondents said they use mobile banking](#), up from 83% in 2017. But a mobile app is now table stakes and not enough to stay ahead of the digital game. In fact, 64% of mobile banking users said that they would research a bank's mobile capabilities before opening an account.

***Banking success strategy:*** Providing additional mobile features is becoming increasingly essential, including options to put temporary holds on cards, view recurring card charges and do a fingerprint scan to log into accounts.

Source: <https://www.the-future-of-commerce.com/2019/12/23/banking-industry-challenges/>

# Challenge #4: Tackling current and evolving regulations

A decade after the Dodd-Frank act overhauled the US financial regulation system, some of the acts regulations have been rolled back by the Trump administration and the pace of new regulations has slowed. However, there are still new regulations being implemented in various states (California, for example) and in Europe, the General Data Protection Regulation (GDPR) provides sweeping new protections for EU citizens.

***Banking success strategy:*** According to Deloitte, the current dynamic regulatory landscape signals that banks should “buckle down and make compliance modernization a priority in 2019...and prioritize soundness and safety.”

# Challenge #5: Focusing on CX

As with other industries, a firm focus on the customer experience is a must to overcome banking industry challenges and meet today's consumer expectations and demands. [A 2018 retail banking](#) found that financial institutions that are CX leaders have higher recommendation rates and shares of deposits, as well as a greater likelihood that customers would buy additional products and services.

***Banking success strategy:*** [Consumers are used to high-quality CX](#) in their daily lives and they expect nothing less from their bank. That means banks must focus on customizing and personalizing their offers and making sure to communicate in the convenient, friction-free ways that customers want. Exceptional CX also revolves around constantly evaluating offerings to make sure they differentiate on service delivery, transparency, etc. rather than only on price and location.

# What Is Online Banking?

The online banking definition, or net banking definition, includes any electronic payment system that allows customers of a financial institution to conduct financial transactions through the financial institution's internet-enabled website or app. Here's where it all began.

Source: <https://www.gobankingrates.com/banking/banks/history-online-banking/>

# 1981: New York City Banks Test At-Home Banking

The early version of what was considered online banking began in 1981. New York City was the first place in the U.S. to test out the innovative way of doing business by providing remote services as four of its major banks — [Citibank](#), [Chase](#) Manhattan, Chemical Bank and Manufacturers Hanover — made home-banking access available to their customers.

# **1983: Bank of Scotland Institutes First UK Internet Banking Services**

The Bank of Scotland offered customers the first UK internet banking service called Homelink. People had to connect to the internet through their TVs and telephones to pay bills and transfer money. What is now known as online banking was formed during this time.

# **1994: Stanford Federal Credit Union Offers U.S. Internet Banking**

In October 1994, Stanford Federal Credit Union became the first financial institution in the U.S. to offer internet banking to all of its customers. A year later, Presidential Bank became the first bank in the country to offer customers access to their accounts online. The advantages of internet banking systems began to catch on as many other banks soon followed Presidential Bank's lead.

Source: <https://www.gobankingrates.com/banking/banks/history-online-banking/>

# 1996: NetBank Is Founded

The evolution of internet banking continued with one of the first truly successful internet-only banks, NetBank — which was founded in 1996 and closed in 2007.

# 1999: Bank of Internet USA Is Founded

Bank of Internet USA was officially founded as part of the incorporation of BofI Holding Inc. on July 6, 1999, making it America's oldest internet bank; it opened for business on July 4, 2000. The conveniences and perks of internet banking became obvious to many customers: [higher interest rates online](#) than with traditional banks, greater access to accounts, and online banking transfers, to name a few.

# **2001: Bank of America Has 3 Million Online Customers**

In 2001, Bank of America made history as the first financial institution to gain more than 3 million online banking customers, about 20 percent of its customer base at the time. More people were starting to realize the advantages of online banking.

# 2006: 80% of US Banks Offer Internet Banking

As the evolution of online banking continued, it slowly gained popularity in e-commerce. When big-name banks began to offer online products and services, e-banking seemed to gain legitimacy for consumers. By 2006, online banking had become mainstream: An overwhelming 80 percent of banks in the U.S. were offering internet banking services.

# 2009: Ally Bank Is Launched

In 2009, Ally transformed GMAC Bank into what we know today as Ally Bank, joining the ranks of internet-only banks. In recent years, it has repeatedly been named the [top online bank in GOBankingRates' annual Best Banks rankings.](#)

# **2010: Online Banking Is Growing Faster Than the Internet**

In a 2010 survey on consumer billing and payment trends, Fiserv, a financial services technology company, found that online and mobile banking were growing at a faster pace than the internet. Online banking has continued to evolve as more innovations and conveniences have been offered. Bank of Internet USA has introduced a number of new and technologically advanced products and services since its inception, including mobile internet banking apps for the most popular mobile devices, mobile check deposit, Popmoney for money transfer via text or email and EMV-chip debit cards.

# 2018: Online Banking Is Standard Practice

Online banking has become so widespread today that customers expect accounts to include free online banking, and many banks only operate on the internet, effectively decreasing overhead costs to [offer more competitive rates on savings](#) accounts and enjoy higher profit margins.

## **Online Banking Security: How Accounts Stay Safe**

Today, online banking is one of the most popular ways for people to manage their money. Banks ensure internet banking security for customers by using encryption technology — such as secure sockets layer — verifying internet banking account activity, incorporating account safety features and constantly warning consumers of ways to [avoid threats such as identity theft](#).

Source: <https://www.gobankingrates.com/banking/banks/history-online-banking/>

# Neo and Challenger Banks

Neobank are digital-only banks without any physical branches and operates on a partnered bank license in the market. These banks provide digital and mobile – first financial payment solutions, remittances and money transfers services, lending, checking and saving account, insurance, and mortgages completely via mobile applications. In addition, neobanks also provide value added services such as automated accounting, expenses management, and payroll, especially to growing small and medium enterprises.

# Neo and Challenger Banks

## Global Neo and Challenger Bank Market

OPPORTUNITIES AND FORECAST,  
2020-2027

Global Neo and Challenger Bank Market is expected to garner **\$471.0 billion** by 2027.

Growing at a **CAGR of 48.1%** (2020-2027)



Source: <https://www.alliedmarketresearch.com/neo-and-challenger-bank-market>

# Neobanks and challenger banks are big business and the next 'big thing', but what is the difference between the two?

As relatively new entities to the banking sector, neo and challenger banks have grown massively over the past decade. Indeed, the Compound Annual Growth Rate (CAGR) of both these banking sectors currently stands at 46%. And this phenomenal rate looks set to top US\$356m by 2025. The success of neo and challenger banks have seen is undeniable. They both seem to offer similar services to their growing customer base too. But there are considerable differences between these new banking options and the features they provide. Read on to find out more.

Source: <https://www.fintechmagazine.com/banking/difference-between-neobank-and-challenger-bank>

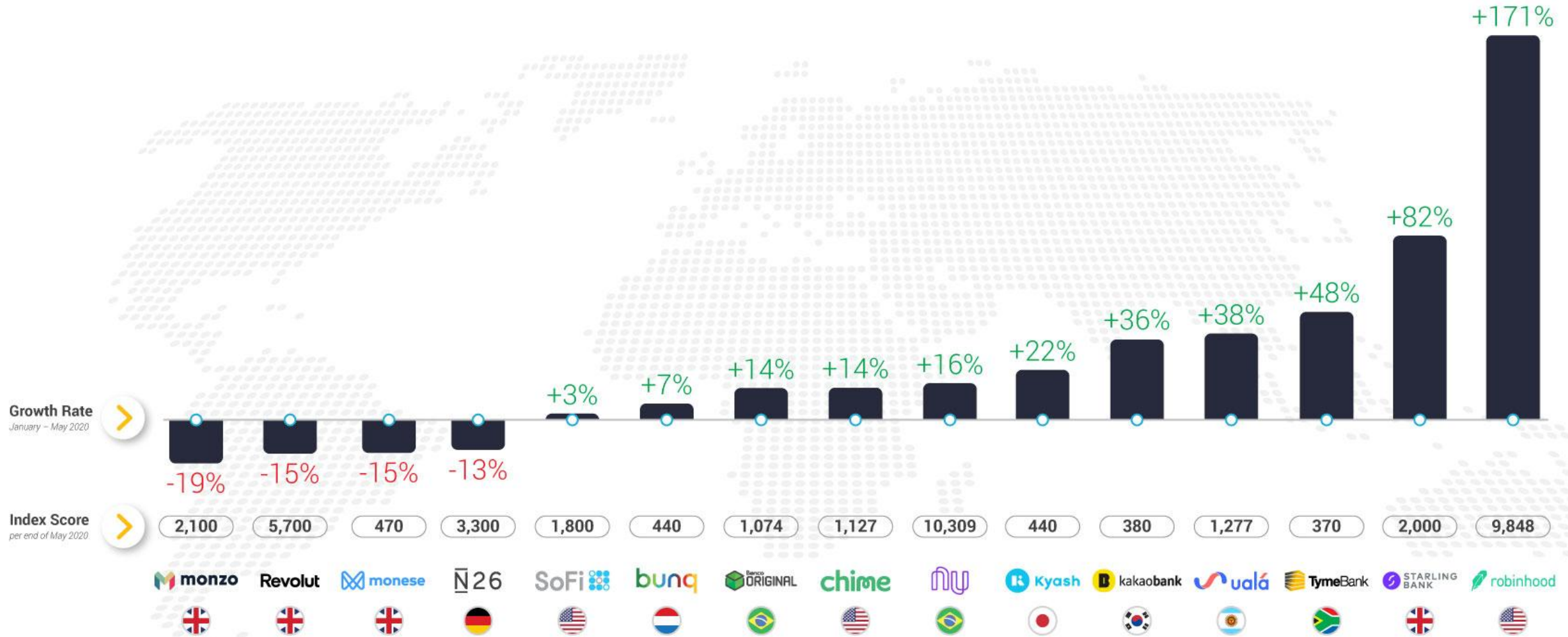
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# Fincog Challenger Bank Index: Performance of Challengers during COVID-19

*growth rates based on the index scores from the beginning of January to the end of May 2020*



Note: the Fincog Challenger Bank Index tracks on a monthly basis the internet search frequency of 100 of the largest challenger banks worldwide. Source: Trendmark, Fincog

## Global Neo and Challenger Bank Market is Expected to Account for USD 607.20 Billion by 2027



■ North America ■ Europe ■ Asia Pacific ■ South America ■ Middle East and Africa

## Global Neo and Challenger Bank Market, By Regions, 2020 to 2027



DATA BRIDGE MARKET RESEARCH

# What is Series A Funding?

Series A funding, (also known as Series A financing or Series A investment) means the first venture capital funding for a startup. The Series A funding round follows a startup company's seed round and precedes the Series B Funding round. "Series A" refers to the class of preferred stock sold. Receiving a Series A round is an important milestone for startup companies. Aside from the funding being much larger than a seed round, companies need to demonstrate they have a [minimum viable product \(MVP\)](#) to acquire an A round - and not just a great idea or team. It is not easy for seed funded companies to graduate to a Series A funding round.

# Series A Funding: Average and Valuation

Average Series A Funding Amount in 2021 (U.S. funding data): The mean Series A funding round has grown steadily over the years and is currently at around \$18.1 million, of April 24, 2021. Investment activity ramped up significantly in Q1, 2021. For example, for the week ending March 13th 2021, there were at least 23 Series A deals, yielding over a half a billion dollars in venture funding.

It is worth noting that the mean Series A is significantly higher than the median Series A. In 2021, the median early stage financing, which includes Series A & B, is around \$8 million. The significant disparity between the mean and median exists because of an increasing amount of "mega-rounds", particularly among biotech startups.

Source: <https://www.fundz.net/what-is-series-a-funding-series-b-funding-and-more>

# Series B Funding: Description

**Series A vs. Series B.** While a Series A funding round is to really get the team and product developed, a Series B Funding round is all about taking the business to the next level, past the development stage. Tomasz Tunguz, a well known Venture Capitalist at Redpoint, says a Series B funding is the most challenging round for a startup company. Typically before Series B funding rounds occur, the company has to have shown some strong achievements after its Series A round. Series B is therefore to pour the gas on for growth with a larger investment round.

# Series B Funding: Average and Valuation

- Average Series B Funding Amount: An analysis of 38 Series B deals in June, 2020, showed the mean Series B in the U.S. to be \$33 million; the median was \$26 million.
- Average Series B Startup Valuation in 2021: In 2021, Series B startups have a median pre-money valuation of around \$40 million.

# Series C Funding

A Series C Funding Round generally occurs to to make the startup appealing for acquisition or to support a public offering. This is the first of what are called "later-stage" investments. This can continue into Series D funding, Series E funding, Series F funding, Series G funding, private equity funding rounds, etc. While there is a lot of capital ready, a lot of companies don't even make it to Series C. The reason for this is because Series C investors are looking for breakout companies that have already demonstrated significant traction. Thus, the deal size of Series C funding rounds has continued to increase.

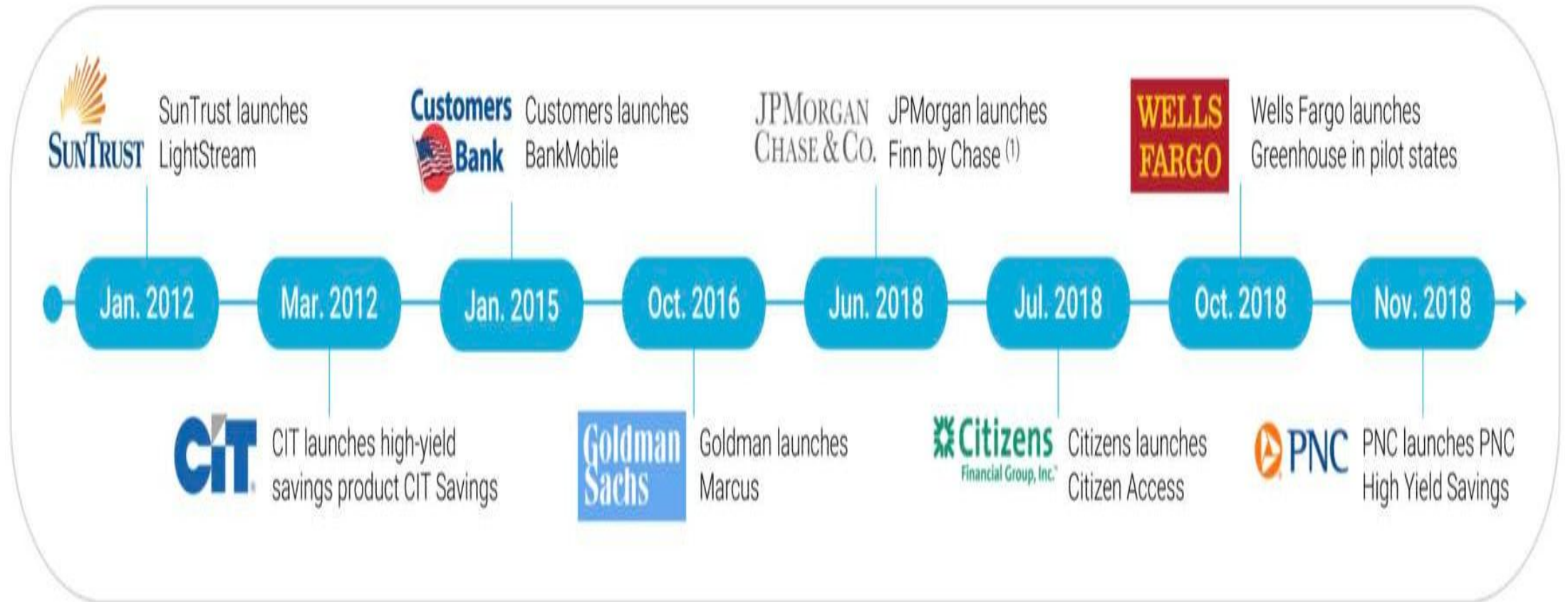
## **Series C Funding: Average and Valuation**

- **Average Series C Funding Amount:** An analysis of 14 Series C deals in the U.S. in June, 2020 showed the mean Series C round to be \$59 million; the median was \$52.5 million.
- **Average Series C Startup Valuation:** The median pre-money valuation of a startup receiving a Series C funding is currently around \$68 million.

Source: <https://www.fundz.net/what-is-series-a-funding-series-b-funding-and-more>

# Traditional Banks Mobile Offerings

Traditional banks have started responding to Challenger Banks by offering competing online / mobile solutions.



# References

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Source: ‘The Rise of Challenger Banks: Are the Apps Taking Over?’, FT Partners (January 2020)