



# Investment Bulletin

In this bulletin we discuss the rise and impact of Neobanks, the first of a series of articles on 'tech in finance'.

## Background

Online services have been growing since the creation of the World Wide Web – for example many supermarkets and restaurants offer online ordering and delivery services. This growth is shown in the fact that 7 of the global top 10 biggest companies in 2018 have digitally based business models. As recently as 2011, only 2 tech-based companies were among the biggest 10.

Over this period, this trend has spread into the banking sector through companies called Neobanks. Institutions in the UK have popped up such as Monzo and Revolut offering a combination of current accounts, savings accounts and debit cards through digital systems alone.

## Traditional vs Neo

One of the main differences between Neobanks and traditional banks is around banking licenses. The type of licence that a Neobank needs depends on what services the Neobank wants to provide and the level of protection for savings. Many Neobanks do not have a full banking licence because they only offer a 'user service' and provide banking services through other banks.

| CATEGORY   | KEY DIFFERENCE  | STARTUPS BACKED BY PRIVATE INVESTORS   | FUNDS RAISED  |
|--|---|--|---|
| NEOBANKS WITH BANKING LICENCE AND A PROPRIETARY BACK-END | ASSET-LIGHT PLATFORM<br>N26<br>↑ \$513.2M<br>Monzo<br>↑ \$432.1M<br>Revolut<br>↑ \$344.4M<br>Bunq<br>↑ \$186.3M<br>↑ \$23.7M<br>\$15M acq. BPCE | Atom<br>\$306.4M<br>TANDEM<br>↑ \$74.3M  | <b>\$1.9Bn+</b><br>(x3.6 vs July 2017)  |
|  | FULL-SERVICES « in-house »  |  |   |
| NEOBANKS PROVIDING DIGITAL FRONT-END FOR B2C             | TARGETS YOUNG PEOPLE<br>Monzo<br>\$11.2M<br>g-henny<br>\$5.8M<br>Lunar Way<br>\$17M (closed)  | Monise<br>↑ \$74.6M<br>\$40M acq. BNP Paribas<br>Lunar Way<br>↑ \$24.75M<br>\$5M acq. Banque Edel        | <b>\$178M+</b><br>(x2 vs July 2017)<br><small>*excluding Revolut which is now considered as an asset-light platform</small> |
|  | EASY ACCESS TO BASIC BANKING SERVICES   |  |   |
| NEOBANKS PROVIDING DIGITAL FRONT-END FOR B2B             | SMB FOCUS<br>Tide<br>↑ \$40.8M<br>Qonto<br>↑ \$36.6M<br>IRAN FIRST<br>↑ \$28.3M<br>PENYA<br>↑ \$10.4M   | Shine<br>↑ \$12.5M<br>\$5.3M acq. BBVA<br>HOLVI<br>↑ \$2.46M<br>Coconut<br>↑ \$2.2M<br>Kontist<br>\$2.2M | <b>\$133M+</b><br>(x2.7 vs July 2017)   |
|  | SOLO-ENTREPRENEUR   |  |   |

source: crunchbase, CB Insights, Pitchbook

The other obvious difference is that Neobanks do not provide services through physical bank branches. Instead Neobanks seek to provide alternative features such as clear budgeting help, immediate notification of purchases, easier spending abroad and rounding up of spending to save the difference into a savings account. The direct service delivery and range of services is reflective of users being more accustomed to smartphones and, according to some studies, can result in stronger relationships with customers. It is therefore not surprising that there has been growing interest from traditional banks also, with many adopting more online services or collaborating with Neobanks.

## Looking forward

As with other industries, digital disruption presents both opportunities and risks. The recent surge in Neobank start-ups has prompted some to suggest that they have the potential to overtake traditional banks in the future. It is for this reason that some investors have flocked to invest in them in the hope of big future returns.

Equally, many warn against short-term optimism and highlight potential risks and challenges. Many Neobanks are yet to record profits and with traditional banks still dominating the market, investors are counting on rapid customer growth to drive profit streams. The challenge for Neobanks is that traditional banks are to some extent embedded into society – with some studies have found that existing consumers are loyal to traditional banks over Neobanks as they are often more trusted in terms of money protection.



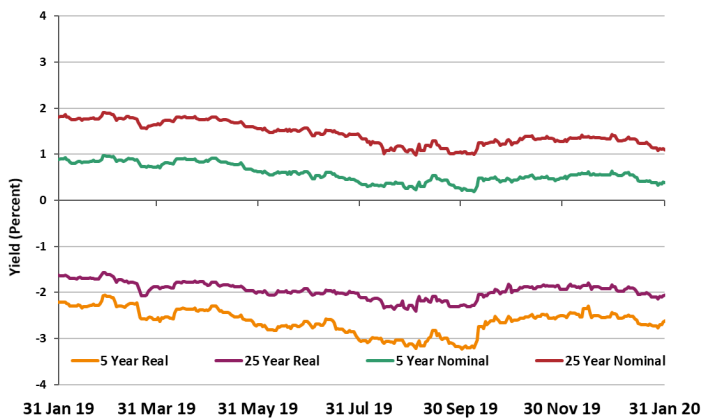
## This Month in Brief

The announcement of an extra £14bn in gilt issuance in the current fiscal year took investors by surprise, which increases gilt issuance for the full year to £136.8bn. The initial dip in bond prices quickly faded away, suggesting investors were not going to punish the government for indulging in more borrowing this fiscal year. Hunger among pension funds for long dated bonds and overseas buyers who have become increasingly important to the gilt market have been supportive of the step-up in issuance.

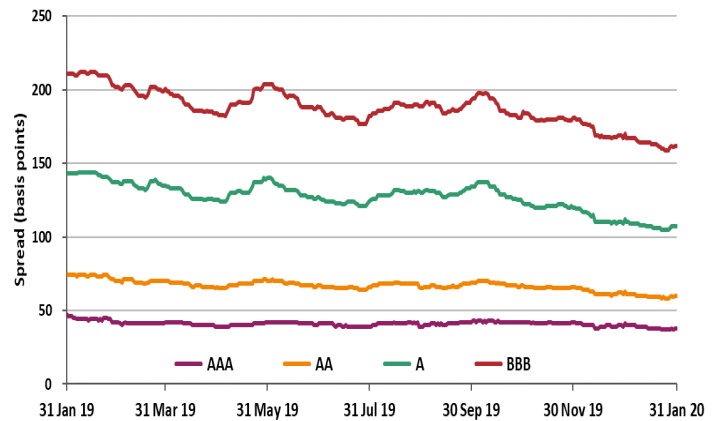
UK Consumer Price Index (CPI) fell further below the Bank of England target of 2 percent and market consensus of 1.5 percent to hit a 3-year low of 1.3 percent. This comes on the back of weak retail sales and slowdowns in manufacturing and service sectors, adding pressure to cut rates and reduce risks of a sustained undershoot of the 2 percent target.

The UK housing sector is seeing stronger growth, after a year of small increases. According to the latest Nationwide house price index, prices were up 1.9 percent compared to this time last year. Record-low interest rates, wage growth and high numbers of mortgage approvals appear to have offset the uncertain economic outlook.

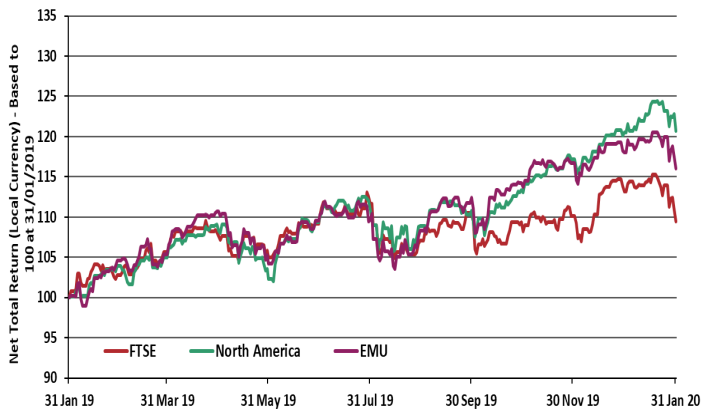
### Real and nominal yields on short-term and long-term bonds declined over the month



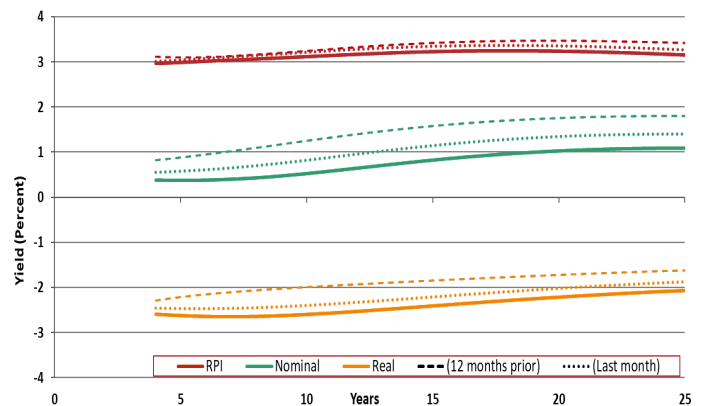
### Credit Spreads continued to steadily decline with slight rise towards the end of the period



### All markets rose slightly before dropping sharply towards the end of the month



### RPI Inflation, nominal and real gilt yields were lower than the previous month over all durations



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