

# Ten lessons for launching a greenfield digital banking business

Global Banking September 2018

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Customers the world over are increasingly adopting digital channels to fulfill their financial needs. This shift, driven by rising penetration of smartphones and wireless data, coupled with customers' increased comfort with accessing services online in other sectors, has paved the way for banks to offer digital-only propositions that are unencumbered by traditional ways of delivering financial services.

Seeking to capture this valuable and fast-growing segment of digitally active customers, and drawn by the allure of reduced capital and operating expenses, a number of incumbent banks and fin-techs have launched greenfield digital-only banking businesses over the last few years.

However, success for most of these digital banks has been elusive. Some have attracted millions of customers and built up advances and deposits books in excess of a \$1 billion; many others have failed to achieve scale and profitability.

Launching a greenfield digital-only bank is just one of the many digital growth strategies at the disposal of an incumbent bank. In particular, incumbents should consider the approach only when three conditions are met:

- 1. The opportunity is large and substantial,** either in the form of an under-served segment or a new geographical market. Launching a digital proposition should unlock substantial value through tailored solutions for customers and deliver returns commensurate to the financial and non-financial investments.
- 2. Speed to market is critical for capturing value,** either by being a first-mover that launches a disruptive proposition to gain market share early, or as a fast-follower responding to a competitor that has recently entered the market.
- 3. Delivering the new digital offering requires a significant departure from the bank's current operating model.** A digital-only propos-

ition requires a unique set of capabilities across people (e.g., user-centric design thinking, modern architecture design capability), infrastructure (e.g., a flexible and easy-to-change front end; always-available back-end transaction systems; a judicious mix of proven and new technology; the right combination of in-house and out-sourced elements) and a way of working (e.g., agile and autonomous cross-functional teams, frequent customer testing) that enables rapid and continuous innovation. If building these capabilities involves a significant overhaul of the current model, incumbent banks may be better off "incubating" them in an independent business unit first, and then gradually migrating capabilities to the larger organization through a structured change-management program.

When executed well, greenfield digital banks can help drive at-scale customers acquisition and significantly reduce operations costs (up to 70 percent lower than traditional banks) while generating attractive returns for shareholders (steady-state ROEs in excess of 15 percent). However, greenfield digital banks can take three to four years to break even, and require significant investment in marketing and customer acquisition in the early years.

Based on what we have seen in the market, our view is that leaders in greenfield digital banking demonstrate five markers of success and avoid five pitfalls.

## Markers of success

Five strategies distinguish leaders in greenfield digital banking, enabling them to achieve at-scale acquisition, attract and retain customers, diversify revenue streams, and accelerate profitability:

### 1. Leverage beyond-banking ecosystems to build scale

The emergence of integrated digital ecosystems that are blurring the boundaries of traditional sectors is enabling companies to offer customers an end-to-end experience through a single gateway such as

a mobile app. Digital banks can capitalize on this trend by participating in ecosystems and getting access to their broad customer bases. Furthermore, by embedding financial services seamlessly within non-banking end-use journeys (e.g., booking and paying for a car ride on the same interface; getting access to personal credit while browsing an online store; buying travel insurance while booking air travel), banks can increase usage of their services. South Korea's Kakao Bank is an example: Parent company Kakao operates KakaoTalk, a popular Korean chat platform. Within a month of launch, Kakao Bank acquired around three million customers by marketing directly to KakaoTalk's roughly 40 million customers and providing a seamless onboarding experience and account-opening that took just five to seven minutes—with no visits to a physical branch.

## 2. Offer a strong credit proposition in addition to deposits and payments

For a digital bank, offering a deposit product and facilitating digital payments is both a foundational feature (addressing the most frequent online banking use cases) and a rich source of valuable customer data. Digital credit products, on the other hand, are critical to profitability. Leading digital banks differentiate themselves by developing strong credit propositions that are based on effective mining of traditional (e.g., balances, transactions) and non-traditional (e.g., location, social, call meta data, browsing history) data. Tencent's WeBank turned profitable within two years of its launch, and built an advances book of approximately \$5 billion, by offering pre-approved microloans to customers with desirable credit profiles. WeBank leverages chat and wallet payments transaction records, loan repayment history, and quality of users' social network to underwrite loans.

## 3. Improve customer satisfaction through convenience and pricing

To draw customers from traditional banks, leading greenfield digital banks differentiate themselves

on two dimensions: convenience and speed. The promise of a more convenient banking experience is central to the premise of digital banking, from paperless and rapid onboarding (less than 10 minutes typically), to convenient features and anytime access. UK-based digital attacker Revolut, which was valued at \$1.7 billion as of April 2018, allows users to send, receive, and split bills in around 25 currencies, with other customers using geo-location-based "near-by" feature, eliminating the need to know/share your counterparties' banking details before transacting with them. Attractive pricing is another draw for digital banks. Without the burden of a large and fixed physical infrastructure, banks can pass the efficiencies to customers in the form of better pricing on core products. For example, Indonesian bank BTPN's digital banking app Jenius offers customers higher rates on term deposits than traditional banks. Similarly, UK's Atom Bank and Brazil's NuBank offer market-beating prices on mortgages and credit card products.

## 4. Monetize key assets through B2B2C models

Digital banks can generate additional revenues by licensing white-labelled technology solutions to other banks and organizations. For example, through its technology subsidiary, Fidor Bank licenses front-end and middleware solutions to partner banks in different geographies. Similarly, Chinese insurer PingAn's subsidiary OneConnect sells technology platforms to smaller banks, insurance companies, and non-bank financial institutions. BankMobile, a US-based digital bank, provides around 800 universities with white-label technology for distributing financial aid refunds to students; students then have the option of opening a BankMobile checking account to receive funds from the university. Also from the US, fintech Moven offers spend-tracking solutions that can be integrated in other banks' digital apps. Moven has partnered with Canada's TD Canada Trust and NewZealand's WestPac to offer these solutions to customers not in its target market.

## 5. Use data and analytics extensively across the value chain

Leading digital banks use data (collected directly from customers and sourced from third parties) and advanced analytics techniques to automate decisions across the end-to-end banking value chain—leading to higher accuracy and efficiency at scale, while delivering a superior customer experience. Some banks have automated more than 20 core decisions across the banking lifecycle, ranging from lead sourcing (e.g., which channel to use to best target a customer; what offer is most likely to appeal to the customer), to verification (e.g., digitally verifying customer information), to credit underwriting (e.g., how much to lend to a customer), to servicing (e.g., what product will the customer need next).

### Pitfalls

In looking at how to build a digital bank, we can learn as much from failure as we do from success. Greenfield efforts that fail to attract a critical mass of customers or find a sustainable path to profitability generally run into the following five limiting factors:

- A weak proposition that fails to address a primary banking need or “delight” customers by solving a pain point unaddressed by current offerings.
- Insufficient investments in marketing after the initial thrust on brand building and acquisition. Incumbents may be inclined to reduce spending on marketing after launch; however, building a digital brand can take years, and requires sustained and targeted investments in marketing.
- Limited use of partner networks for cost-efficient acquisition can drive up the cost of

customer acquisition prohibitively. Greenfield digital banks should develop a partnership-led acquisition strategy to gain scale rapidly and cost-effectively—which in turn requires them to develop a compelling partner value proposition upfront.

- Conflict with parent entity’s strategy. A digital bank offering can potentially cannibalize revenues of the parent entity. The absence of an overarching strategy that outlines how the digital bank complements the parent bank’s core business (e.g., targeting a different segment; offering a distinct set of products) is likely to cause conflict and loss of revenues and customers for both entities.
- Lack of income-generating products due to over-reliance on high-cost deposits and cheap payments products. Digital banks must have a plan for introducing and cross-selling income-generating products (e.g., lending, fees for wealth management products, subscriptions for “premium” services) in order to support the standalone profitability of the franchise—as opposed to just being a source of low-cost deposits for the parent entity.

For incumbent banks, the launch of a greenfield digital banking business can be an attractive strategy that meets rising customer expectations and counteracts the threat of fintech attackers. However, doing so successfully requires that banks weigh numerous considerations. The ten learnings outlined above, gleaned from real-world digital banking efforts, can help banks increase their odds of success.

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