

Learn to Leap #14

Building and scaling one of the world's fastest-growing mobile banks

Setting a bold vision, adapting the business to respond to market feedback, and putting customer satisfaction first has enabled digital-banking start-up N26 to grow rapidly into a global bank valued at \$3.5 billion.



Creating a new, global business in a regulated industry such as financial services is challenging. Setting the organization up for global scale and turning it into one of the most successful digital disruptors comes with even greater challenges. In a conversation with McKinsey's Jerome Königsfeld and Lukas Salomon, N26 cofounder and co-CEO Maximilian Tayenthal reflects on learnings from the company's rapid growth and rollout across 25 countries.

Key insight #1

Successful business building requires the ability to pivot quickly and to adapt the product based on feedback from the market.

Lukas Salomon: You launched N26's banking product six years ago and have scaled rapidly. Looking back to your early days, how did you come up with the idea for the business?

Maximilian Tayenthal: We originally started with a different idea: we were offering a prepaid card for teenagers. The card was connected to an app through which their parents could control the card. But when we launched a beta version of this product, we quickly discovered that parents weren't actually using this product for their kids—they were using it for themselves. We then realized that we might be able to play in a bigger arena, as our product had all the elements of a digital-banking offering: cards, an app, and accounts into which people could deposit money. If we could build a strong product, we'd be able to compete with large incumbents in their core business.

Jerome Königsfeld: What made you confident that you'd be able to compete and disrupt the industry?

Maximilian Tayenthal: We recognized a growing trend: a good share of banking customers were no longer using branches. For them, the defining element in the relationship with their bank was the look and feel of the bank's mobile and online offerings—aspects that were very weak for most banks at the time. This meant that with a great digital product, we'd be able to serve these customers better and at a lower cost.

Lukas Salomon: After identifying that opportunity, what were the first indicators that showed you'd actually be able to scale it into a billion-dollar business?

Maximilian Tayenthal biography

Maximilian Tayenthal is the cofounder and co-CEO of N26, which he built together with his business partner and friend, Valentin Stalf. Previously, Max worked in a variety of consulting and financial roles at leading professional-services firms. Max has bachelor's and master's degrees in economics and business administration from the University of Vienna. Additionally, he has a master's degree in economics from the Community of European Management Schools and a law degree from the University of Vienna. Max is a CFA charter holder.

Maximilian Tayenthal: There wasn't one specific moment in which we really knew it'd be a success. But as soon as we launched the banking product, we saw strong excitement from customers and confirmed that there was a need for our product. We had a waiting list of 50,000 prospects.

Once we understood that potential, my co-founder and I set our long-term ambition. We knew we didn't want a quick exit. Instead, we wanted to build a global financial institution, impact the lives of 100 million customers, and compete with the biggest banks worldwide. I think setting this level of ambition early on is what differentiated us from many other start-ups—we always follow our North Star target of 100 million customers.

Jerome Königsfeld: How did you manage to build that waiting list of prospects before launching? That's significant.

Key insight #2

Monetization is important—but it will come only from customer happiness, which needs to be the primary focus, particularly in the early stages of the start-up.

Jerome Königsfeld: You mentioned your bold vision of 100 million customers. How do you break that ambition down into near-term goals and metrics?

Maximilian Tayenthal: We actually didn't do any paid marketing; we focused on PR. Lots of start-up and tech blogs covered our story, which meant that we reached many “early adopters”—people who always follow the latest technology trends, always have the latest apps on their phones. That created quite a lot of buzz and exclusivity.

Lukas Salomon: How has that customer base evolved over time?

Maximilian Tayenthal: Today, we no longer rely on these early adopters. Our customers come from all walks of life and are intrinsically motivated to change their bank accounts and sign up with us—not because we're the newest, latest offering, but because they are dissatisfied with their old banks and see that we're offering a better product. They're excited about it, which allows us to acquire customers at a fraction of the cost that our traditional competitors need to spend.

Maximilian Tayenthal: We group our goals into three clusters: customer satisfaction, growth, and, finally, monetization.

About N26

N26 was cofounded in 2013 by Maximilian Tayenthal and Valentin Stalf and launched its first banking product in 2015. Since then, the company has scaled rapidly and now serves more than seven million customers in 25 countries. The bank's staff has grown to 1,500 employees across its Berlin headquarters and seven additional offices in Barcelona, Madrid, Milan, Paris, Vienna, New York, and São Paulo. A \$470 million Series D funding round in 2019 put the company's valuation at \$3.5 billion, with \$950 million in funded capital raised to date.

We've always been extremely passionate about customer satisfaction. It's the foundation on which all growth is built. While this is especially true in the early stages of starting any new business, even today most of our new customers come to us after having experienced our product through friends who have already signed up. Building a strong product and ensuring customers become ambassadors are essential to scaling.

When we started out, we focused first on customer satisfaction and then on growth. For the first 18 months after launching N26, nobody had any monetary key performance indicators (KPIs). It was about growing, about launching new product features, and then obtaining a banking license and, finally, entering new markets.

The up-front barriers to starting a new financial business are massive—obtaining licenses, signing contracts with payment providers, and so on. But once you overcome those initial hurdles, it's a highly scalable industry. It doesn't make a big difference to your operations whether you have one million or five million customers, as long as you have the proper systems and processes in place.

As to monetization, we always believed that once we had a large base of customers who trusted us and who used our products for their daily financial needs, we'd be able to monetize them in a fair and

transparent way. In fact, we were probably one of the first banks to provide customers with free accounts without, at the same time, offering loans and charging interest.

This model is working well: we're decreasing costs and increasing revenues over time. Our unit economics are profitable, which is important for fundraising. As you scale and reach maturity, investors look very closely at your monetization strategy. You need to really have your model sorted out and prove that you can profitably acquire new customers at scale. Nobody will give you hundreds of millions of dollars for a bold vision alone.

Lukas Salomon: What are the key advantages of being a digital bank built from scratch?

Maximilian Tayenthal: Incumbents are often banks with an outsourced IT company, while we're an IT company that is also a fully licensed bank. We have a state-of-the-art, cloud-hosted core banking system and don't rely on any legacy systems. We also don't have branches, which greatly reduces overhead. Lastly, the majority of our staff aren't banking experts who've spent their entire careers in banking. In fact, many of our people come from the digital space and are experts in development, design, or product. That results in a much more agile, customer-centric approach.

Key insight #3

To successfully steer your organization through rapid growth, you need to hire experienced leaders, select scalable back-office systems, and establish full transparency in your reporting.

Jerome Königsfeld: What were the organizational measures you took to enable rapid scale-up?

Maximilian Tayenthal: That's definitely been challenging. We started as a team of two in our living room in Vienna and knew every tab and cell of our business-case spreadsheet. But eventually you realize that you've grown so much that you can no longer do that and need to delegate.

In the beginning, you dedicate all your focus to the product, which means that back-office and organizational processes sometimes lag behind. With our growth rates, it has been particularly hard to keep up with the pace. At times, we were doubling both our customer base and our employee count every six to eight months. This came with major challenges: new team members were sometimes onboarded by someone who had joined the company only four

weeks before them. Somebody hired in a stand-alone role could find themselves managing a team of 20 direct reports six months later.

When you're growing so quickly, it's vital that your systems and organizational processes are scalable. Think about the situation you want to be in two years from now. Select systems that don't just work for the 100 employees you have today but for the 500 or 1,500 you might have by then. Make sure that you also hire people who've seen big organizations before and who are able to lead others. We may be a young team, but today we're hiring people with a lot of experience, especially for executive roles.

Lukas Salomon: While your role encompasses a broad set of responsibilities across the company, you also served as the CFO. How do you see the role of the finance function in a rapidly scaling business?

Maximilian Tayenthal: One of the key responsibilities is fundraising. At around \$3.5 billion,

we're one of Germany's highest-valued and most well-funded private start-ups, but we still have a very big vision and need to make sure that we find sufficient capital to fund our global expansion. We've greatly benefited from the liquid private markets of the past few years but are now also considering a potential IPO in the future.

Jerome Königsfeld: What about monitoring and reporting? How do you ensure you're on track and establish transparency on plans and budgets when your business transforms so quickly?

Maximilian Tayenthal: We're passionate about data. We monitor dozens or even hundreds of key metrics such as sign-ups, churn, cross-sells, upsells, and subscriptions in real time. Live dashboards allow everyone to track progress every minute. On the financial side, we have a full P&L every month but monitor KPIs within the teams daily.

Key insight #4

A strong brand and great user experience will be effective differentiators in every market—but local expertise is still required.

Lukas Salomon: Let's talk about scaling globally, as you're now active in 25 markets. How did you manage to expand across so many geographies?

Maximilian Tayenthal: We've always planned to build a pan-European bank. The European banking market is highly fragmented, which results in disadvantages for consumers. If you're born in Vienna, earn your bachelor's in Barcelona and your master's in Paris, and then start working in Milan, you'll have had to open four different bank accounts. We're the only bank serving customers across Europe with a single IT platform and a single banking license.

We also realized that the needs of our customers are very similar across all of these markets. They all need the same set of product features: a bank account, a card, and perhaps credit and investment

offerings. Similarly, they all desire a great digital experience. The gold standard for that experience is the same across the globe, I believe. An appealing, slick app will work as well in Europe as it will in the United States.

Lukas Salomon: How do you go about hiring for international expansions? Do you hire locally?

Maximilian Tayenthal: Yes. We have a highly international team: there are more than 80 nationalities represented in our organization, and less than 10 percent of our workforce is German—which is remarkable, given that we are headquartered in Germany. For country managers, local knowledge is essential. Our country manager in France is French; there's an Italian in Italy, an American in the United States, and so on. It's critical to have that local

perspective to really understand the market. Many start-ups have failed in their international expansion because they didn't sufficiently account for that.

Jerome Königsfeld: How do you create awareness in these new markets?

Maximilian Tayenthal: Primarily through a combination of PR efforts and strong brand positioning. Branding is an extremely important lever for us, both in existing and in new markets. Our visual identity and campaigns and the language in which we address potential customers are core differentiators from traditional banks. Think about how much excitement there is for product launches in tech. People queue up for a new iPhone. And then compare that to how people react to traditional financial-services firms announcing new investment products. It's a very different story, and there's a huge opportunity for building a new brand that addresses customers differently.

Jerome Königsfeld: Looking ahead to the future, what are the next frontiers of growth?

Maximilian Tayenthal: Most importantly, we want to go deeper in our existing markets. We want to give people more and more reasons to switch from traditional banks. Measured by the size of our ambition and the sheer size of the addressable market, we're barely scratching the surface. To get to 100 million users, we need to grow by orders of magnitude. We also want to expand into additional markets, with Brazil and a couple of others on the road map.

In terms of new products, we're definitely looking into offering trading services. We want to support our customers in building their personal wealth, and enabling them to invest in public stock markets is an important component of that. We also want to expand our credit portfolio further and partner with other great fintech companies on new offerings.

Jerome Königsfeld is an associate partner in McKinsey's Cologne office, and **Lukas Salomon** is a consultant in the Berlin office.

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