FEB 16
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European banks worried about neobank and fintech competitors are making their own

Article

The trend: Challenges from neobanks and fintechs are prompting traditional banks to reassess their customer retention strategies. A recent survey found that **many incumbent**

financial institutions (FIs) are responding by investing in fintech startups and building their own greenfield digital banks.

- The survey, which covered 300 global banking executives, was conducted by research firm Economist Impact and commissioned by bank software vendor **Temenos**.

By the numbers: European banks are more likely than FIs in other regions to believe neobanks will be their biggest competitors in the next five years.

- 36% of European banks are building their own greenfield digital banks or fintech companies, and 43% are allocating funds to these ventures.
- It's unclear how much these strategies overlap.

By comparison, **US banks believe their biggest competitors are fintechs, followed closely by big tech.**

Fintech investment strategies vary: As in the US, where regional banks are investing in a deposit sourcing fintech, European banks also invest in fintechs that could improve their operations and services or fill critical gaps.

- **Barclays** primarily invests in wealth tech, with a focus on the US market.
- **Santander** invests in lending tech, liquidity management, and pay automation.
- **ABN Amro** invests in reg tech, banking tech, and lending.
- **ING Bank** invests in lending and AI, particularly in the UK market.

The greenfield digital bank option: European neobank challengers and fintechs have taken the lead in customer and digital experience—and traditional FIs want to emulate the digital experiences that could draw back young consumers.

But digital-only subsidiaries of traditional European banks, aptly nicknamed "speedboats," have met with mixed results.

- **Bo** by **Royal Bank of Scotland**, and **Zuno** by **Raiffeisen Bank International** both shut down a few years after opening.
- Spain's **Banco Santander** opened **Openbank**, which now has 2 million customers. And **BNP Paribas** opened **Hello Bank!** which now has 755,000 customers. Both have decent reviews,

but users occasionally complain about technical glitches and usability issues.

Where these strategies can go wrong: Issues that prevent some traditional FIs from offering customers seamless digital experiences don't just disappear when the FI opens a neobank subsidiary.

- Traditional banks are burdened by legacy systems and require significant investments in new technology to establish a digital bank.
- To succeed, they also need to attract the talent necessary to make the technology appealing and useful for their customers.

Can it work? Sure. But like any startup, it won't work all of the time.

- In fact, just 21% **of European banking leaders believe challenger banks will flourish**, and **35% believe market consolidation will eventually happen.**

Key takeaways: European FIs' investments in speedboats and fintechs have showcased their adaptability to evolving competitive dynamics.

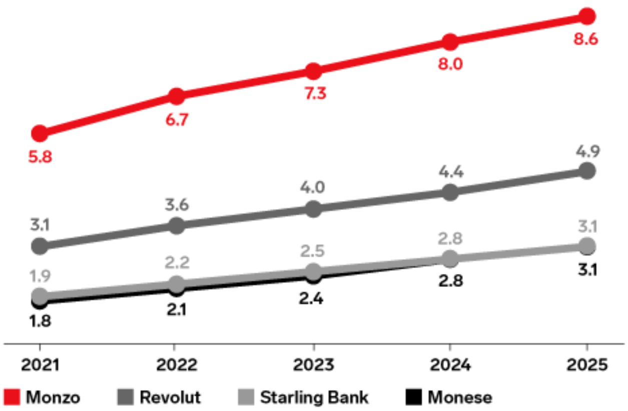
- FIs worldwide can learn from their pitfalls and successes when considering fintech or neobank investments to fortify operations and enhance customer experiences.

To improve their chances at success, banks considering opening up their own digital neobanks should:

- Thoughtfully target a new demographic, so they aren't just pulling their own customers to the new digital bank
- Use successful existing technology in the new bank so they aren't building everything from scratch
- Refrain from opening such a subsidiary unless they believe it's necessary for their survival

*Speaking of fintechs, **don't forget** about the compliance risks of a BaaS partnership. Read this next.*

UK Neobank Account Holders, by Company, 2021-2025
millions



Note: individuals who have at least one account at an FSCS-backed, digital-only, full-service bank open to all consumers that includes transactional and savings options but does not operate physical branches, and where all account management is carried out via web browsers, mobile apps, or over the phone
Source: Insider Intelligence, May 2021

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