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# Awash in cash for now, neobanks will need to show investors a new strategy

Article

**The news:** **Monzo bagged $475 million to reach a $4.5 billion valuation** in its latest round, per the Financial Times.


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The UK-based neobank's valuation is **now up 200% from its February 2021 nadir of £1.25 billion ($1.6 billion)**, after a **pandemic-induced drop from $2 billion in 2019.**

**More on this:** The challenger closed on its new round despite grappling with multiple problems:

- In its 2021 annual report, the company reiterated that it's uncertain whether it can continue as a going concern.
- The company also disclosed in the report that it's subject to an anti-money laundering probe from the UK's Financial Conduct Authority (FCA).
- In October, it opted to drop the bid for a US banking license.

**Trendspotting:** Monzo's capital injection is just the latest this year from a slew of big neobanks operating within several countries:

- Brazil-based **Nubank bagged $2.6 billion for its IPO this week** and **hit a valuation in the $41 billion range** in doing so, per multiple news reports. The figure hovered around the high end of the company's pricing range, which it revised downward last week.
- In October 2021, Germany-based **N26 brought in over $900 million** with a **valuation above $9 billion.**
- UK-based **Revolut raised $800 million** in July 2021 with a **$33 billion valuation.**
- US-based **Chime landed $750 million** and got a **$25 billion valuation** in August 2021.
- UK-based **Starling capped off a £322 million ($412.9 million)** round in April 2021, with a **pre-money valuation of £1.1 billion ($1.41 billion).**
- France-based **Lydia became a unicorn** by crossing the $1 billion valuation mark due to a **$100 million raise** this week.
- Netherlands-based **bunq raised €193 million ($220.1 million)** last week through its first-ever outside funding round.
- US-based **Varo** saw its valuation **soar to $2.5 billion** in September 2021 due to **bagging $510 billion**.

**The big takeaway:** Prominent neobanks face a coming-of-age moment as they decide on where to deploy a wave of fresh capital.


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Earlier funding rounds effectively subsidized challengers' single-minded focus on acquiring customers—no matter how much that cost them—by picking off disgruntled users from digitally deficient incumbents.

But as neobanks grew, legacy banks became more digitally savvy, began to co-opt features that had previously differentiated neobanks from incumbents, and narrowed the gap—especially in the US.

The recent funding rounds demonstrate investors' continued confidence in the space. But neobanks must show they can do more than just sign up new customers.

As challengers mature, they have an array of options for putting their recent capital infusions to work, including:

- Expansion into new markets, or at least doubling down in them.
- Rolling out new products, such as buy now, pay later (BNPL) or securities trading. Broader product lineups can attract more customers or enhance engagement with existing ones.
- Maintain their differentiation from incumbents. This dilemma is playing out in the US now, as established players curb or drop their overdraft fees—which formerly helped neobanks that never charged them to grab disaffected customers.

Each option would bring neobanks closer to profitability by offering them new ways to monetize users or to maintain their competitive edge.


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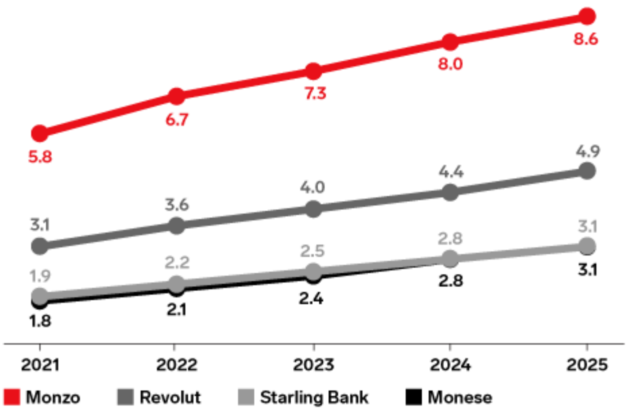
## UK Neobank Account Holders, by Company, 2021-2025

*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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