

Neobanks need a longer-term strategy for monetization to survive and attain profitability

Article

The news: Neobanks struggle to turn a profit, with an estimated less than 5% of them breaking even, per a [report](#) from Simon-Kucher & Partners.

Surface-level success: The report confirmed that neobanks have gained enough traction over the past decade to seriously challenge incumbent banks and the status quo. Neobanks' focus on mobile and digital access has served as a catalyst for change within the financial services industry.

- They've revolutionized the way consumers access their financial lives. Their value was truly realized at the onset of the Covid-19 pandemic, when they helped customers easily stay on top of their banking needs through the web and mobile apps.
- Neobanks have run away with customization, personalization, and affinity banking. Thanks to them, most customers can find an option that suits their personal values and satisfies their specific needs.

But neobanks' successes appear to be surface level. Without turning a profit, some neobanks may struggle to survive, no matter how many clients they serve.

By the numbers: At the beginning of 2022, approximately 400 neobanks served nearly one billion customers worldwide.

- After a peak year of funding in 2021, the neobank landscape is valued at a whopping **\$300 billion**.
- **One in three** neobanks is considered a "speedboat"—meaning it was launched or supported by a large incumbent bank. These neobanks typically have deeper funding than independent start-ups.
- But a survey of 25 of the biggest neobanks revealed that only two of them reached profitability. Most earn less than **\$30 in revenue per customer annually**.

Where are they coming up short? The surface-level success of neobanks begs the question of why these banks are unable to climb up from the red into the black.

- Neobanks may be spreading themselves too thin by expanding to new geographies too quickly. For example, **Revolut** in the past few years expanded across three continents in addition to adding new products.
- Some neobanks fail to look past their initial innovation or product and identify coming trends.
- In a race to acquire customers, neobanks may focus on opening as many accounts as possible without thinking about how to make them profitable. Many banks offer account sweeteners to bring customers in, but that approach might not be sustainable.

- Neobanks offer a lot of free features in their apps, but their strategy to monetize them over time is key. Offering premium subscriptions or lending services is one way to do this.
- Even the most seasoned neobanks don't fully grasp the complexity of taking a small start-up to global scale.

What can they do? Profitability should be at the core of every future initiative or decision a neobank makes. The report identifies three points of a neobank's life cycle and what it can do at those points.

- **Get out there:** At launch, neobanks can operate with a startup mentality, but they must realistically identify points of pain and build a business case.
- **Get reach:** During the next two to four years, neobanks must focus on their main markets, identify trends in those markets, and lower the cost of customer acquisition.
- **Get rich:** From year five onward, neobanks should begin to monetize their services and have a plan for increasing revenue over the years. Neobanks at this stage should also determine if partnerships can bring value.

The stages Simon-Kucher describes are similar to the steps we identified in our [UK Digital-Only Banks Report](#). We've included four actions within our roadmap for profitability:

- Create partnerships to offer more services.
- Offer business banking.
- Push toward more profitable services, like lending.
- Boost premium accounts.

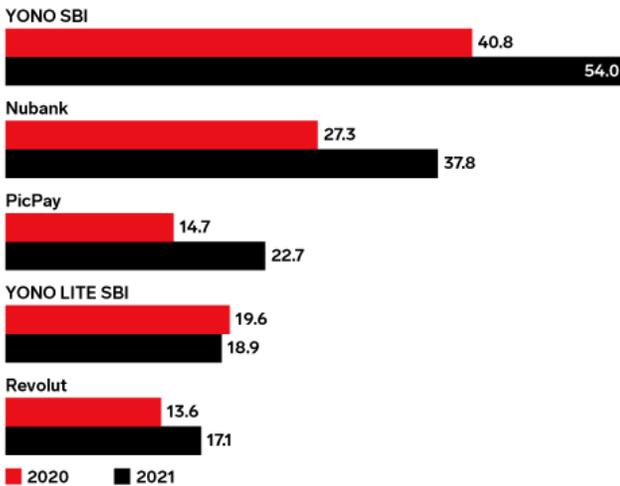
What's next? The explosion of neobanks catapulted the industry into an unprecedented digital space, but as the market becomes saturated, we expect there will be winners, losers, and partnerships.

- As neobanks mature, some will stand out as clear leaders. Recent and anticipated IPOs may be an indicator of the standouts. Some to watch include Brazil-based [Nubank](#), US-based [Chime](#), and Germany-based [N26](#).
- Some neobanks may never attain profitability and will ultimately dissolve or turn their focus elsewhere. We've seen this in Australia, where neobank [Xinja collapsed](#) completely, and [Volt](#) shifted to a banking as a service [model](#).

- Neobanks may also become acquisition targets. The report identifies six neobanks that were bought in 2021. Fintech start-ups striving to become super-apps may scoop up a neobank to bolster their financial arms. Alternatively, particularly in economically volatile times, incumbent banks may see an opportunity to buy a neobank. These “speedboats” will then be used to bring in customers and increase the incumbent’s chances against other digital challengers.

Top 5 Neobanks Worldwide, by Average Monthly Active Users, 2020-2021

millions



Source: App Annie, "State of Mobile 2022," Jan 12, 2022

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