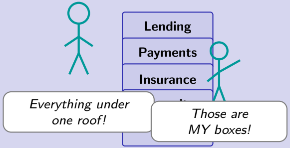
FinTech Value Creation: How Do FinTechs Reshape Financial Services?

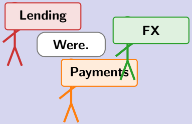
The mechanisms are invisible — the disruption is not

Digital Finance

The Bundle



The Unbundlers



"Unbundling looked like theft. Rebundling looked like genius."

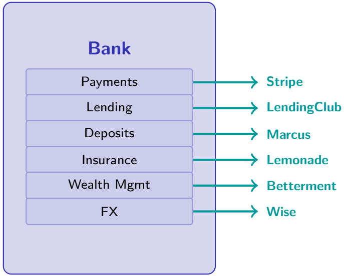
Why Do FinTechs Attack Only One Piece of Banking at a Time?

The Unbundling Thesis

Banks bundle services because of historical constraints — branch networks, universal licenses, and shared infrastructure made it cheaper to offer everything together. But individual services can be delivered better in isolation when technology removes the glue that held the bundle together.

Think department store vs. specialty shop. Each FinTech picks the most friction-laden piece of the bundle and delivers it with fewer steps, lower cost, and a better interface.

- The bundle survives only as long as the cross-subsidy holds.
- FinTechs cherry-pick the profitable products, leaving banks with the unprofitable remainder.
- Each specialist can iterate faster than a generalist can react.



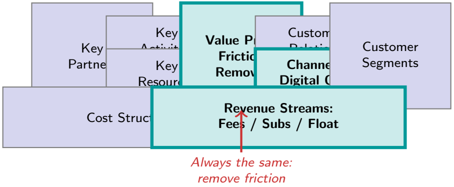
Unbundling works because banks cross-subsidize: profitable products fund unprofitable ones. FinTechs cherry-pick the profitable ones.

What Does a Business Model Canvas Reveal About FinTech Value Creation?

The FinTech BMC Pattern
Osterwalder's Business Model Canvas reveals a striking regularity across FinTechs: despite surface diversity, nearly all share the same core value proposition — **friction removal**.

- **Value Proposition:** Remove a specific friction that banks tolerate because eliminating it would cannibalize other revenue.
- **Channels:** Digital-only, no branches. Acquisition cost is a fraction of traditional banks.
- **Revenue Streams:** Transaction fees, subscriptions, interchange, or float — but always tied to the friction removed.

The pattern: FinTechs do not invent new financial products. They deliver existing ones with dramatically less friction. The canvas makes this visible — most blocks are identical across competitors. Only the *specific* friction targeted differs.

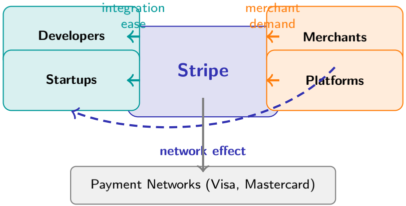


Osterwalder's Business Model Canvas reveals that most FinTechs share the same value proposition: friction removal. They differ in channels and revenue logic.

How Does Stripe Make Payments Invisible — and Why Is Invisibility Valuable?

The Stripe Case
The developer pain point: integrating payments into a web application used to take weeks of paperwork and legacy API wrestling. Stripe reduced it to a few lines of code — payments became invisible infrastructure.

- **Multi-sided platform:** developers on one side, merchants on the other, payment networks underneath.
- **Network effects:** more developer integrations make the platform more valuable to merchants, and vice versa.
- **Chicken-and-egg:** Stripe targeted developers first (supply side), knowing merchant demand would follow.
- The result: payments infrastructure that merchants never see and developers never think about. Invisibility *is* the product.



Platform economics explains why payments FinTechs tend toward winner-take-most outcomes: the more merchants connected, the more developers build on the platform.

How Does a FinTech That Starts With One Product End Up Looking Like a Bank?

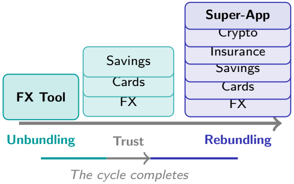
Christensen's Disruption Cycle Applied

Phase One — Unbundling: Revolut launched with a single proposition: cheap foreign exchange. No lending, no insurance, no savings accounts. Just one friction, solved well.

Phase Two — Trust Earned: Users adopted Revolut for FX, then began trusting it with broader financial needs. Switching costs accumulated through habits, not contracts.

Phase Three — Rebundling: Savings, insurance, crypto trading, business accounts, and eventually a full banking license. The single-product FinTech became a super-app.

The irony: the endpoint of disruption is re-creating the very bundle that was disrupted. The survivors look remarkably like the banks they attacked.



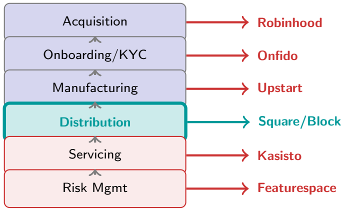
Christensen's disruption theory predicts this cycle: entrants unbundle to attack, then rebundle to defend. The survivors look remarkably like the banks they disrupted.

Where Exactly in the Banking Value Chain Do FinTechs Insert Themselves?

The Banking Value Chain
Evans and Wurster argued that information-rich value chains will deconstruct. Banking is the textbook case: every link is now contestable.

- **Customer Acquisition** — social media, referrals (Robinhood)
- **Onboarding / KYC** — automated identity (Onfido)
- **Product Manufacturing** — algorithmic underwriting (Upstart)
- **Distribution** — merchant POS access (Square/Block)
- **Servicing** — chatbots, self-service (Kasisto)
- **Risk Management** — real-time monitoring (Featurespace)

The critical insight: FinTechs that own the **customer interface** capture the most value, regardless of which link they enter. Distribution is the most attacked link because it controls the relationship. Square/Block made POS payments accessible to small merchants that legacy systems excluded entirely.



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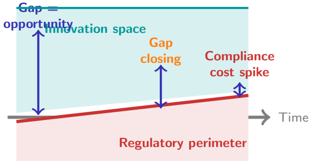
Is Regulatory Arbitrage a Legitimate Strategy or a Ticking Time Bomb?

The Arbitrage Tension
Many FinTechs owe their early advantage to operating outside the regulatory perimeter that constrains banks:

- **Peer-to-peer lenders** operated without banking licenses, avoiding capital requirements that banks bear.
- **Buy-now-pay-later** providers escaped consumer lending classification for years, sidestepping disclosure rules.
- **Crypto exchanges** operated without securities licenses in most jurisdictions until regulators caught up.

The tension: regulatory arbitrage provides first-mover advantage, but it is inherently temporary. The gap always closes.

Wise illustrates *positive* arbitrage: radical fee transparency became a competitive moat when regulators mandated similar disclosures for everyone else. The best FinTechs convert temporary gaps into permanent licenses before competitors are forced to comply.



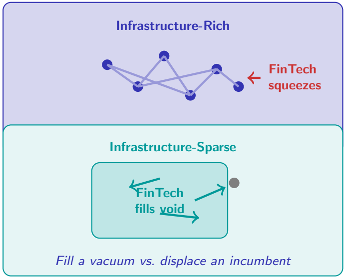
The best FinTechs convert regulatory arbitrage into regulatory moats — by obtaining licenses before competitors are forced to.

Why Did Mobile Money Succeed in East Africa but Not in Western Europe?

The M-Pesa Lesson

M-Pesa did not disrupt banking in Kenya — it *created* banking where none existed. The infrastructure vacuum was the opportunity: no branches, no card rails, no ATM networks. But nearly everyone had a mobile phone.

- Mobile phone networks became payment rails — the phone *is* the bank.
- Fundamentally different from Stripe or Revolut: M-Pesa built infrastructure rather than disrupting it.
- In Western Europe, dense branch networks, universal card acceptance, and mature payment rails left no vacuum to fill.
- The lesson: FinTech value creation depends entirely on context. Filling a vacuum is a different game from displacing an incumbent.



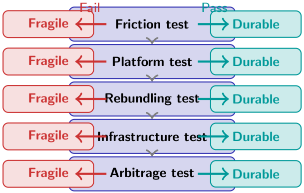
M-Pesa's insight: in unbanked markets, the phone IS the bank. Value creation means building infrastructure, not disrupting it.

What Framework Predicts Whether a FinTech Will Create Lasting Value?

The Five-Test Synthesis

1. **Friction test:** Does it solve a real friction, or is it a product nobody asked for? Real friction means users switch without incentives.
2. **Platform test:** Are network effects present? Does each new user make the product more valuable for existing users?
3. **Rebundling test:** Can it add adjacent products once trust is established? Single-product FinTechs are vulnerable to incumbents that copy the feature.
4. **Infrastructure test:** Is it filling a vacuum or displacing an incumbent? Vacuum-fillers face less resistance but need to build more from scratch.
5. **Arbitrage test:** Is the regulatory gap growing or shrinking? Shrinking gaps mean rising compliance costs that erode margins.

Lasting value creation requires passing at least three of these five tests. Most failed FinTechs pass only the first.



Pass three or more = lasting value

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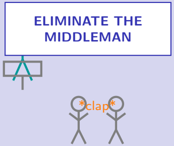
The Pitch



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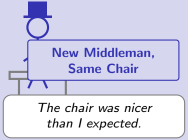
The Future



"The most successful disruption is becoming the thing you disrupted."