# Post-Class Summary: FinTech Business Models & Value Creation

## Key Frameworks

### Business Model Canvas for FinTech

The Business Model Canvas decomposes any venture into nine interlocking elements—value proposition, customer segments, channels, revenue streams, key resources, key activities, key partners, cost structure, and customer relationships. For FinTechs, the canvas reveals a recurring pattern: the value proposition almost always centres on removing a specific friction that incumbents tolerate (slow settlement, opaque pricing, high minimums), while channels bypass branches entirely in favour of app-store distribution and viral referral loops.

### Platform Economics

Many FinTechs operate as multi-sided platforms connecting two or more participant groups—merchants and consumers, borrowers and lenders, developers and end-users. These platforms exhibit cross-side network effects: each additional participant on one side makes the platform more valuable to the other. The central strategic challenge is the chicken-and-egg problem—attracting the first side when the other side is empty—typically solved by subsidising the supply side or offering free developer tools.

### Unbundling–Rebundling Cycle

Christensen's disruption framework explains how FinTechs enter: they unbundle a single service from the bank's integrated offering and deliver it better, faster, or cheaper. Over time, successful unbundlers rebundle—adding adjacent products once trust is established—because customer-acquisition costs are high and cross-selling raises lifetime value. The cycle repeats: today's rebundled super-app becomes tomorrow's incumbent ripe for a new wave of unbundling.

### Value Chain Deconstruction

Evans and Wurster argued that information-rich value chains are vulnerable to deconstruction when digital alternatives reduce the cost of coordinating across firm boundaries. In banking, each link of the value chain—acquisition, onboarding, manufacturing, distribution, servicing, risk management—can be attacked independently. FinTechs exploit the weakest links; banks defend the links where regulation, data, or switching costs create natural moats.

### Regulatory Arbitrage

Some FinTechs gain an early advantage by operating under lighter regulatory regimes than traditional banks—e-money licences instead of full banking charters, for instance. This arbitrage is inherently temporary: regulators eventually close the gap. The strategic question is whether the FinTech can convert its head start into a durable compliance moat—building regulatory capability that itself becomes a barrier to later entrants.

## Company Cases Summary

| Company | Value Creation Mechanism | Key Framework | What Makes It Different |
|---|---|---|---|
| Revolut | Multi-currency spending at near-interbank rates; rebundled into crypto, trading, insurance | Unbundling–Rebundling | Started FX-only, now a super-app with a banking licence |
| M-Pesa | Mobile-money transfers via basic handsets in markets without banking infrastructure | Platform Economics | Leapfrogged branch banking entirely; agent network as physical distribution |
| Stripe | Developer-first payment infrastructure; API-based integration replacing legacy POS complexity | Value Chain Deconstruction | Attacked the "plumbing" layer; revenue from enabling others rather than serving end-consumers directly |
| Wise | Peer-matched foreign-exchange transfers eliminating correspondent-bank chains | Regulatory Arbitrage → Compliance Moat | Built licences in dozens of jurisdictions; transparency as brand identity |
| Square / Block | Unified merchant hardware, software, and lending ecosystem for small businesses | Platform Economics | Two-sided ecosystem—seller tools fund consumer-facing Cash App growth |

## The Five-Test Framework

Use these five tests to evaluate any FinTech's strategic position:

1. **Friction test.** Identify the single largest friction the FinTech removes from an existing process.
   *Application:* Wise removes hidden foreign-exchange spreads; if the spread disappeared industry-wide, would Wise still have a reason to exist?

2. **Platform test.** Determine whether the FinTech connects two or more sides of a market and benefits from cross-side network effects.
   *Application:* Stripe connects developers and merchants—each new merchant makes the developer toolkit more valuable, and vice versa.

3. **Rebundling test.** Assess whether the FinTech has begun—or is likely to begin—adding services beyond its original wedge product.
   *Application:* Revolut launched with foreign exchange alone, then added cards, crypto access, insurance, and salary advances—a textbook rebundling arc.

4. **Infrastructure test.** Ask whether the FinTech is the product itself or the invisible layer on which others build products.
   *Application:* Plaid provides account-connectivity infrastructure; most end-users never see Plaid, yet hundreds of consumer apps depend on it.

5. **Arbitrage test.** Evaluate whether the FinTech's advantage stems from a regulatory gap and, if so, whether that gap is closing.
   *Application:* Early peer-to-peer lenders operated outside traditional banking capital rules; as regulators tightened requirements, only those with strong compliance capabilities survived.

 

## Connections to Other Topics

The frameworks above connect directly to several other course themes. The profitability challenge—whether FinTechs can sustain growth while achieving positive unit economics—is explored in the business-models mini-lecture, which examines how revenue streams evolve as a FinTech moves from unbundling to rebundling. The payment-systems material in the main Lesson One lectures provides the institutional detail behind the friction test: interchange flows, settlement mechanics, and the correspondent-banking chain that Wise and Stripe seek to displace. Finally, the regulatory-arbitrage test links to Lesson Four on RegTech and compliance, where we examine how technology can turn regulatory burden from a cost centre into a competitive advantage.

 