In-Class Exercise: Neobank Business Models

Exercise 1: Structured Debate — "Is a Neobank a Bank or a Subscription Software Product?"

Format: Split into two teams. Each team prepares its position, then presents. After both sides speak, the class votes — but first read the debrief questions. For grounding, pick Monzo as the reference case, because its product stack spans both sides of the argument more visibly than most of its peers.

Team A — "Monzo Is a Bank"

Anchoring evidence: Monzo holds a full UK banking licence, accepts deposits, earns net-interest income on lent balances, provides protected savings, and is supervised by the PRA and FCA. Its overdraft, loan, and business banking products are regulated credit products with capital-adequacy implications.

	Team A: Monzo Is a Bank
Argument I	
Argument II	
Argument III	
Concession	*Strongest argument AGAINST your position:*
Closing	*How you address the concession:*

Team B — "Monzo Is a Subscription Software Product"

Anchoring evidence: Monzo's revenue logic increasingly resembles a tiered subscription business. Its customer-relationship surface is an app. Its cost structure is dominated by cloud compute and product engineering, not branch real-estate. Its release cadence — feature drops, in-app experiments, gradual rollouts — matches a software firm's, not a bank's.

	Team B: Monzo Is a Subscription Software Product
Argument I	
Argument II	
Argument III	
Concession	*Strongest argument AGAINST your position:*
Closing	*How you address the concession:*

Debrief Questions

Q1: Does the answer — bank or software product — matter for how prudential regulators should supervise Monzo? Why or why not?

Q2: Could the answer genuinely be "both, at the same time"? If so, what does that imply for the usefulness of the classification in the first place?

Q3: Name another financial-services company that blurs a category boundary in the same way. What tension does the blurring create for its investors?

Exercise 2: Value Chain Mapping

Scenario: The banking value chain has six links. For each link, identify which of the five neobanks on the reference slate (N26, Monzo, Chime, Nubank, Starling) most clearly owns the link, and describe what the neobank is substituting for the incumbent's approach at that link. Neobanks rarely own every link outright — be explicit when the neobank is renting a link via a partner bank or SaaS vendor.

Customer Acquisition → Onboarding / KYC → Product Manufacturing → Distribution → Servicing → Risk Management

Value Chain Link	Neobank Owning It	What It Substitutes For the Incumbent	Owned or Rented?	Is the Link a Moat or a Margin Cap?
Customer Acquisition				
Onboarding / KYC				
Product Manufacturing				
Distribution				
Servicing				
Risk Management				

Synthesis Questions

Q1: Which value-chain link creates the strongest moat for a neobank, and which link most clearly caps its margin? Defend both answers with reference to ownership, data, and regulatory barriers.

Q2: For at least two of the five neobanks on the reference slate, identify a link where the neobank "rents" via a partner. What would it take for the neobank to convert that rented link into an owned one — and should it?

Facilitator Solutions

Sample answers for instructor reference. These are illustrative; student reasoning may diverge and still be valid.

Exercise 1: Debate Sample Answers

Team A (Monzo Is a Bank) — sample arguments

Argument I. Monzo holds a full UK banking licence granted by the PRA. That licence obligates Monzo to hold regulatory capital commensurate with its credit exposure, participate in the Financial Services Compensation Scheme, and submit to stress testing. A subscription software product carries none of those obligations; Monzo does, making it a bank by regulatory definition.

Argument II. Monzo earns net-interest income by deploying customer deposits into overdrafts, personal loans, and business lending products. This is balance-sheet intermediation — the core value-creation mechanism of banking. When the Business Model Canvas is applied, Monzo's key revenue stream at scale is credit spread, not subscription fees.

Argument III. Monzo's deposits are protected under UK deposit-insurance rules. That protection exists because deposit-funded institutions can trigger bank runs if confidence falters. No subscription software product creates systemic liquidity risk of this kind. The presence of deposit-insurance obligations places Monzo firmly within the bank classification regardless of how its interface is designed.

Concession. The strongest argument against Team A is that Monzo's revenue mix, cost structure, and customer-acquisition logic resemble a subscription software firm far more than a branch-based bank.

Closing. Regulatory classification follows economic risk, not interface aesthetics: because Monzo intermediates credit and takes liquidity risk on depositors' funds, prudential supervision as a bank is the correct response.

Team B (Monzo Is a Subscription Software Product) — sample arguments

Argument I. Monzo's primary revenue vehicle is a tiered subscription model (free, Plus, Premium). Its customer-relationship surface is entirely an app; there is no branch, no relationship manager, no paper statement. The product competes for wallet share against other subscription apps, not against other banks. Its Business Model Canvas reads far more like a software-as-a-service firm than a credit institution.

Argument II. Monzo's cost structure is dominated by cloud infrastructure and product engineering, not branch real-estate, legacy core-banking systems, or physical-cash handling. Its release cadence — weekly feature drops, in-app A/B tests, gradual rollouts — mirrors a software firm. Platform network effects (more users sharing pots, sending peer-to-peer payments, splitting bills) generate growth that no traditional bank can replicate through branch expansion.

Argument III. Monzo's investors have valued it on growth and engagement multiples typical of technology companies. The implicit assumption is that its dominant competitive advantage is the platform and the data assets it accumulates, not the credit book. That valuation logic is at odds with the book-value multiples applied to traditional banks.

Concession. The strongest argument against Team B is that Monzo's banking licence, deposit-insurance obligations, and capital-adequacy regime create genuine systemic responsibilities that pure software products never bear.

Closing. The subscription-software classification captures where Monzo's growth, culture, and competitive advantage reside, even if a licensed banking subsidiary provides the underlying rail. The banking licence is infrastructure, not identity.

Debrief Q1 — Regulatory supervision

Whether prudential regulators should supervise Monzo as a bank depends on the risks it creates rather than the label it prefers. Monzo accepts deposits that can be withdrawn on demand, which creates liquidity risk. It extends credit, which creates credit risk. Both risks can cascade through the financial system if unaddressed, which is precisely why prudential supervision — capital requirements, stress tests, resolution planning — exists. Classifying Monzo as a software product and applying only consumer-protection rules would leave those balance-sheet risks unguarded. The answer matters because the supervisory toolkit is calibrated to the risk, not to the interface through which the risk is accessed.

Debrief Q2 — "Both" as an answer

The answer can genuinely be "both at the same time." Monzo operates a regulated deposit-taking entity inside a technology-company organisational structure, with a software-first acquisition model and a banking-licensed revenue base. This duality exposes the limits of categorical industry labels inherited from a pre-digital era when distribution, manufacturing, and risk-bearing were all bundled inside one institution. If "both" is the right answer, the implication for classification is that functional regulation — regulating by what a firm *does* (takes deposits, extends credit) rather than what it *is* (a bank, a tech company) — is more robust than institutional classification. That shift is already underway in several regulatory jurisdictions.

Debrief Q3 — Cross-sector blurring example

Klarna provides a close parallel within financial services: it began as a payments company ("buy now, pay later"), acquired a Swedish banking licence, and now offers savings accounts and credit products alongside its checkout software. Investors and regulators have struggled to classify it: is it a consumer-lending bank subject to capital-adequacy rules, or a payments-technology platform valued on transaction volume? The tension is directly analogous to Monzo's. For investors, the blurring creates uncertainty about which peer set should anchor valuation; for regulators, it creates uncertainty about whether prudential or conduct supervision should lead.

Exercise 2: Value-Chain Mapping Sample Answers

Value Chain Link	Neobank Owning It	What It Substitutes for the Incumbent	Owned or Rented?	Moat or Margin Cap?
Customer Acquisition	N26 (app-first, zero branch cost)	Branch-proximity dependence for account opening; replaces footfall with app-store virality	Owned	Moat (low acquisition cost via network referrals)
Onboarding / KYC	Chime (mobile document verification)	In-branch identity checks and paper-form onboarding; replaces manual KYC with selfie-and-ID flow	Rented (via banking partner)	Margin Cap (KYC cost borne by partner, limits control)
Product Manufacturing	Nubank (own Brazilian banking licence, manufactures credit in-house)	Outsourced credit underwriting through a partner bank; Nubank owns the full credit stack	Owned	Moat (proprietary credit data builds scoring advantage)
Distribution	Starling (direct SME banking without broker intermediaries)	Broker-led business-banking distribution; Starling reaches SMEs through a direct digital channel	Owned	Moat (direct relationship = lower distribution cost)
Servicing	Monzo (in-app chat support, real-time notifications)	Branch and call-centre servicing; Monzo substitutes asynchronous in-app resolution	Owned	Moat (low marginal cost per service interaction at scale)
Risk Management	Upstart / Zest AI (alternative credit-scoring models)	FICO-based scoring using thin credit-file proxies; replaces bureau scores with behavioural and cashflow signals	Rented	Margin Cap (proprietary model needed to fully capture advantage)

Synthesis Question 1 Sample Answer

The link that creates the strongest moat for a neobank is Servicing. Once a customer trusts the neobank's in-app experience — real-time notifications, instant dispute resolution, transparent transaction data — switching costs rise sharply. The neobank accumulates a behavioural data asset with every interaction, which feeds product personalisation, risk scoring, and cross-sell targeting. None of that dataset transfers if the customer leaves. Regulatory barriers are moderate (conduct rules on complaints handling), but the data moat is the dominant barrier. The link most likely to cap margin is Onboarding / KYC, particularly where the neobank rents the link through a partner bank under a banking-as-a-service arrangement. The partner captures the regulatory responsibility and a share of the economics; the neobank retains customer-experience control but surrenders margin. Converting KYC to an owned link requires obtaining a full banking licence — a multi-year, capital-intensive process that most neobanks delay until scale justifies the cost.

Synthesis Question 2 Sample Answer

Chime rents its banking infrastructure (deposit-holding, payment-scheme membership) from partner banks. Converting that rented link into an owned one would require Chime to obtain a US bank charter, satisfying capital requirements, submitting to Federal Reserve supervision, and building a compliance infrastructure calibrated for a regulated deposit-taker. The case for converting is improved economics and greater control over the product roadmap; the case against is the capital drag and regulatory overhead that a chartered bank must carry. For Chime, the question of whether to seek a charter is a strategic choice between platform-speed and regulatory-legitimacy, not a foregone conclusion. N26 faced the same decision in the US market and withdrew rather than absorb the compliance burden, illustrating that renting can be the rational steady-state rather than a waystation.