Pre-Class Discovery Handout: Neobank Business Models

Activity 1: Business Model Canvas Detective

Scenario: Pick ONE neobank you have opened an account with or read about in depth (for example N26, Monzo, Chime, Nubank, or Starling). Fill in the canvas below by investigating how that neobank actually works. Focus on the mechanics of value creation, not marketing language.

Canvas Element	Your Analysis
Value Proposition *What friction does this neobank remove that an incumbent tolerates?*	
Customer Segments *Who is the core segment; who is the secondary segment?*	
Channels *How does the neobank reach and serve customers without branches?*	
Revenue Streams *What types of revenue does the neobank collect (not amounts)?*	
Cost Structure *Which cost lines are smaller than an incumbent's, and which are roughly the same?*	

Q1: What single friction is this neobank's core wedge? Is that friction still there if incumbents match the feature?

Q2: Does this neobank hold its own banking licence, rent one, or operate as an e-money institution? Why does the answer matter for its revenue streams?

Q3: If this neobank disappeared tomorrow, what would its customers lose that an incumbent could not reproduce in a single product release?

Activity 2: Unbundling Map

Scenario: Incumbent retail banks bundle many services. Neobanks cherry-pick individual services and deliver them better. Match each neobank on the left to the primary wedge service it launched with — not its full product catalogue today.

Neobank		**Launch Wedge Service**
N26	____	Mobile-first current account in the euro area
Monzo	____	Prepaid then debit account with real-time spending visibility
Chime	____	Fee-free spending account aimed at under-served wage earners
Nubank	____	Branded credit card with no annual fee in a high-fee market
Starling	____	Full UK banking licence with a single-app current account

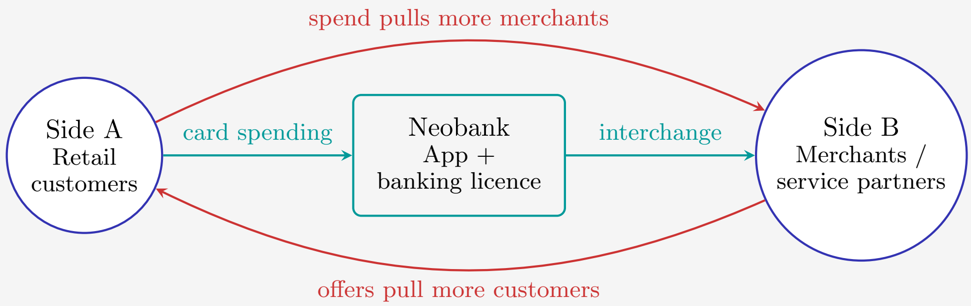
Q1: For each neobank, describe in one sentence the friction its wedge service removes.

Q2: Which of these neobanks has most aggressively added adjacent products after the wedge? What did it add, and in what order?

Q3: Why might a neobank that launches with one wedge service eventually want to look like a full bank — and what does it risk by doing so?

Activity 3: The Platform Puzzle

Scenario: A neobank is not a classic two-sided platform in the same sense as a card network, but it does exhibit cross-side effects. On one side are retail customers; on the other side are merchants and service providers whose transactions generate interchange and transaction data. Neither side finds the neobank's data offering valuable without the other.



Q1: Why does a neobank with more active retail customers become more attractive to merchants, and vice versa? Name the specific cross-side mechanism.

Q2: Which side should a new neobank attract first, and why? What distinguishes this choice from a payment network's choice?

Q3: Once a neobank reaches critical mass in a market, what specifically makes it hard for a later entrant with the same template to catch up?

Solutions

Activity 1: Business Model Canvas Detective

A1: Model answer for N26: The core wedge is real-time spending visibility and frictionless euro-area account opening. The friction is partially erased as incumbents catch up with better mobile apps, but the underlying operating-cost gap remains — N26 does not carry a branch network. Sustainability of the wedge depends less on feature parity and more on cost-to-serve differentials.

A2: N26 holds a full German banking licence, which unlocks deposit-insurance protection and allows N26 to earn net-interest income on customer balances. Operating as a pure e-money institution would restrict the business to interchange and subscription revenue; earning interest on deposits requires a banking licence.

A3: Customers would lose fast in-app account opening across multiple euro countries and the tight feedback loop of real-time notifications on every card transaction. An incumbent could in principle match both, but its branch-network cost structure and multi-country legal-entity sprawl make feature parity slow and expensive.

Canvas elements (N26):

- **Value Proposition:** a euro-area current account that opens in minutes and reports every transaction in real time.
- **Customer Segments:** primary — mobile-first retail customers in Germany and neighbouring euro countries; secondary — expats and cross-border workers.
- **Channels:** the N26 app itself, app-store listings, and word-of-mouth referrals generated in-app.
- **Revenue Streams:** card interchange, tiered subscriptions, net-interest income on deposits, foreign-exchange markups beyond free-tier limits.
- **Cost Structure:** cloud infrastructure, a small product engineering team, compliance and anti-money-laundering staffing, card-scheme and correspondent banking partnerships. Notably absent: branch real-estate, teller staffing, ATM networks.

Activity 2: Unbundling Map

A1: N26 removes the friction of multi-country euro banking (branches across borders). Monzo removes the friction of opaque spending (no real-time visibility). Chime removes the friction of fee-laden entry-level accounts for under-served wage earners. Nubank removes the friction of annual-fee-laden credit cards in a high-fee incumbent market. Starling removes the friction of running a branch-based current account with slow onboarding and legacy interfaces.

A2: Monzo has most aggressively rebundled: it launched with a current account, added budgeting tools and bill-splitting, followed with savings pots and joint accounts, and subsequently introduced overdrafts and personal loans. The ordering illustrates Christensen's unbundling-to-rebundling cycle: payments-adjacent products seed the relationship; deposit-adjacent products build the balance sheet; credit-adjacent products unlock margin once provisioning capacity exists.

A3: A full-product neobank captures more lifetime revenue per customer and becomes harder to displace as switching costs rise. It risks, however, that each product added consumes capital, compliance staff, and management attention that incumbents already amortise across a much larger base. If the neobank imports bank-style cost structure faster than it builds bank-style margin, it loses on both the tech-company lens (user growth slows as product complexity grows) and the bank lens (margin compresses before scale arrives).

Activity 3: The Platform Puzzle

A1: This is a **cross-side network effect** specific to neobanks. More retail customers generate more card interchange and more transaction data, which makes the neobank more attractive to merchants (for rewards partnerships and co-branded offerings) and to service partners (for data-driven product integrations). Simultaneously, more merchant offers and service integrations make the neobank's app more useful to retail customers, drawing further retail inflow.

A2: A neobank typically attracts the **retail side first** because the card rail acts as the acquisition channel. Merchant offers and service-partner deals only become commercially meaningful once a customer base exists. This contrasts with a payment network, which typically must seed the merchant side first to give consumers somewhere to transact. The neobank already inherits the merchant side from the card network it plugs into, so it can focus acquisition spend on the retail side.

A3: A mature neobank accumulates a **structural moat** made of three layers: habit (customers no longer think about switching once direct-deposit and bill payments are routed), data (transaction history drives personalisation that a later entrant must rebuild from scratch), and regulatory capital (the licence and compliance apparatus built while scaling cannot be copied in a single product cycle). A later entrant must match all three simultaneously to displace the incumbent neobank, which is much harder than matching any one of them in isolation.

