
A SHORT HISTORY OF FINTECH UNBUNDLING AND REBUNDLING IN THE US

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HARVARD Kennedy School

MOSSAVAR-RAHMANI CENTER
for Business and Government

TODD H. BAKER

MRCBG SENIOR FELLOW

BANKS ARE BUNDLES

- Banks Traditionally Provided a “Bundle” of Related Financial Services to Customers



- DDA (Checking) Accounts
- Lending—Commercial, Consumer, Leasing etc.
- Savings Accounts
- Payments & Related Services
- Customer Access (branches, online, telephone)
- Insurance and Investment Management
- [In Large Banks--Investment Banking, Sales & Trading]

THE PREMISE OF FINTECH DISINTERMEDIATION STRATEGIES WAS UNBUNDLING TRADITIONAL BANK OFFERINGS



EXAMPLE 1—2014 LENDING UNBUNDLING VIA MARKETPLACES

Perfect Timing

- Benign Environment
 - Traditional finance companies largely wiped out
 - Banks shy about credit risk taking and focused on operating costs
 - Bank IT budgets overwhelmed by Dodd-Frank
 - Large areas of demand in lower end of consumer and small business unmet
 - Yield starved investors
 - Financial benefit of deposits hidden in low-rate world

Venture Capital Thesis—Scale Tech Play Because of Marketplaces

- Foundation Capital—Charles Moldow--Marketplace Lending will be a “trillion dollar market by the people for the people” by 2025
 - Replacing intermediary banks with end-to-end experiences connecting latent supply with latent demand, and adding critical functions in the middle
 - Using technology to enable scale and operating leverage.
 - Taking significant share from banks while simultaneously growing overall markets.
 - Credit and Funding Risk Viewed as Irrelevant due to “Magic of the Markets”

Pure Play Specialty Lending Companies Using Marketplaces to Disintermediate Banks

EXAMPLE 2– 2015 CUSTOMER RELATIONSHIP UNBUNDLING VIA MOBILE

Mobile Millennials Hate Banks and Love Mobile Tech

- Fintech Startups Creating Superior Mobile Customer Experiences to Lure Customers away from Bank Front End
 - Aligning interests with consumer
 - Simple, useful tools to manage finances
 - No legacy IT problems
 - Piggybacking off bank data through aggregators
 - Still dependent on Bank backbone to do more than financial advice
 - Big issues on control of financial data

Venture Capital Thesis—Scale Tech Play Because of Mobile Millennial Adoption

- Various surveys find 70-90% of millennials use and prefer mobile banking over traditional options
- Mobile is scalable
- Getting Customers is what matters

Pure Play Mobile Front-Ends Seek to Disintermediate Banks

BUT AN UNBUNDLED PRODUCT IS NOT NECESSARILY A BUSINESS MODEL

Early Stage VC Approach

- Build Product
- Grow Customer Base
- Show High Net Promoter Score
- Add Brand Value
- Spend our money and worry about revenue and profitability later

Today's VC Approach

- Time to grow up
- Where's the revenue?
- No more money without profit potential

TODAY—2017—REBUNDLING AND THE RISE OF US-STYLE NEOBANKS

Fintechs are Rebundling

- **Later is Now:** Bringing on core Bank products/services in order to **generate revenue, secure funding and stabilize business models**
 - DDA (Checking) Accounts
 - Lending—Commercial, Consumer, Leasing etc.
 - Savings Accounts
 - Payments & Related Services
 - Customer Access (branches, online, mobile, telephone)
 - Insurance and Investment Management
- Funding-strapped Lenders adding mobile deposit and financial management capabilities

Examples Abound

- Fintech Lender SoFi is becoming the first scale “NeoBank” in US
 - NeoBank today = Fintech provider of deposit, lending & other financial products but not yet a “real bank”
 - NeoBank tomorrow= Pinocchio is a “real boy”-- SoFi ILC bank application
- Other Emerging US NeoBanks taking different segment approaches but all rebundling
 - Varo Money—the “new middle class” combining DDA and lending
 - Aspiration—”millennials” combining DDA and Investments
 - Chime Banking---DDA and savings management
- The Fintech Centerpost—Even Responsible Finance
 - Use strength of customer base, brand and delivery channel to add capabilities and rebundle
 - Adding financial management tool to core offering and eventually deposits, savings etc?



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SoFi

TODAY—2017—A CLOSER LOOK AT SOFI



A One Product Company

- SoFi exploited a market anomaly to take leadership in student loan refinancing
 - But market was limited and competition fierce
 - Funding capacity inherently fragile
 - Single product company—very low cross-sell
- Long-term goal became to create “private bank for the new rich”--HENRYs
 - Added investments and other lending capacity
 - ***But couldn't shift core relationship to SoFi from banks***
 - Needed to become full relationship owner

Now a Neo-Bank

- Fintech Lender SoFi is becoming the first scale “NeoBank” in US
 - Bought core system in Zenbanx deal
 - Now pursuing ILC charter
 - Core DDA Capacity for relationship control
 - Entering credit card business
 - Unacknowledged funding advantage of deposits is key to long-term financial success
- Another Fintech Centerpost
 - Using the strength of a customer base, brand and delivery channel to add capabilities and rebundle

ILLUSTRATION—THE SEARCH FOR REVENUE IN FINTECH COMPANIES SERVING LOW-INCOME WORKING FAMILIES

Contact Key	Standard Bad Credit Installment Lenders	Standard Low-FICO Installment Lenders	Secured Credit Cards	Credit Access/Cost Improvement Lenders	Credit Builder Lenders	Credit Builder Services	Financial/Cash Flow Management	Alt-Consumer Bank Deposits	Income/Expense Variability Management	Savings	Other
Contact Initiated	Elevate (Rise)	Avant	Most Issuing Banks	Personify (Applied Data Financial)	SelfLender	Revolution Credit	DoubleNetPay	Varo Money	Even Responsible Finance	Acorn	Bee
Contact Made	NetCredit	One Main		Opportun	Finova	Ecredit Hero	Moven	Simple	FlexWage	Digit	BillGuard
Interview Scheduled	Dollar Financial	Basix/Zest		Climb(student)	Lendstreet	Bloom Credit	MyFin	Aspiration	PayGoal	Earn	BlueBird Cards
Interview Completed	Opp Loans			LendingPoint	Lenny	ecredable	Mint	Chime	Ziero Finance	Long Game	Planwise
				Earnest (student loans)	Lendstreet	Payoff	Learnvest		Active Hours	SmartyPig	Propel (EasyFoodStamps)
				LendFriend (Vet)		Guaranty Bank Neo	Earnup		PayActiv	Qapital	Rezzcard
				FS Card FIG Loans			Prism		Nowsta		Stash
				Elevate (Elastic) Float		Happy Mango	Albert		Honeybee		UnionCapital Zebit
				Lendup			Support Pay (Child Support)				Factor Trust
				Affirm (POS)			Wage Goal (NTFS)				Remedy
				Ascend							Propel (Fresh EBT) Trim (subscr. Cancel)



The Search for Revenue