



EXTON RESEARCH

Report Neobanks 2021

Shifting from growth to profitability

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STRATEGY &
MANAGEMENT

EDITORIAL

NEOBANKS 2021 – SHIFTING FROM GROWTH TO PROFITABILITY?

When we published our last Neobanking newsletter back in 2018, we had identified 60 worldwide digital challenger banks that had launched until that date. Now, only two years later, that number has increased by more than 4 times to an astonishing 256 live Neobanks¹, with many more in the process of being launched. At this time of accelerated growth there is, however, another side of the story, as the COVID-19 health crisis puts a lens on the still fragile economics of the segment.

Those economics are in many cases relying largely on payment interchange fees and are vulnerable to rising lending defaults given the limited history and experience with lending in such banks.

These developments are reason enough for us to take another close look at this widely debated segment, aiming to better understand the level of disruption caused and its future prospects.

We have structured our study around three major pillars:

- The global growth of Neobanks – a geographical analysis
- Trends and tendencies – where are Neobanks heading?
- The rocky path to profitability – three options for Neobanks

The Newsletter concludes with an interview with Marco Roca, CEO of Krealo, who shares some inside stories from the successful launches of Tenpo in Chile and Tyba in Colombia, two of LatAms emerging Fintechs.

Enjoy your reading.

The Partners

1. We define Neobanks as digital banks aiming to achieve primary customer relationships in their area of expertise and thus compete directly with traditional banks. They distinguish themselves through focus on mobile customer experience, the solution to specific pain points and leverage a modern IT architecture

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THE GLOBAL GROWTH OF NEOBANKS – A GEOGRAPHICAL ANALYSIS



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STATE OF THE NEOBANKING INDUSTRY

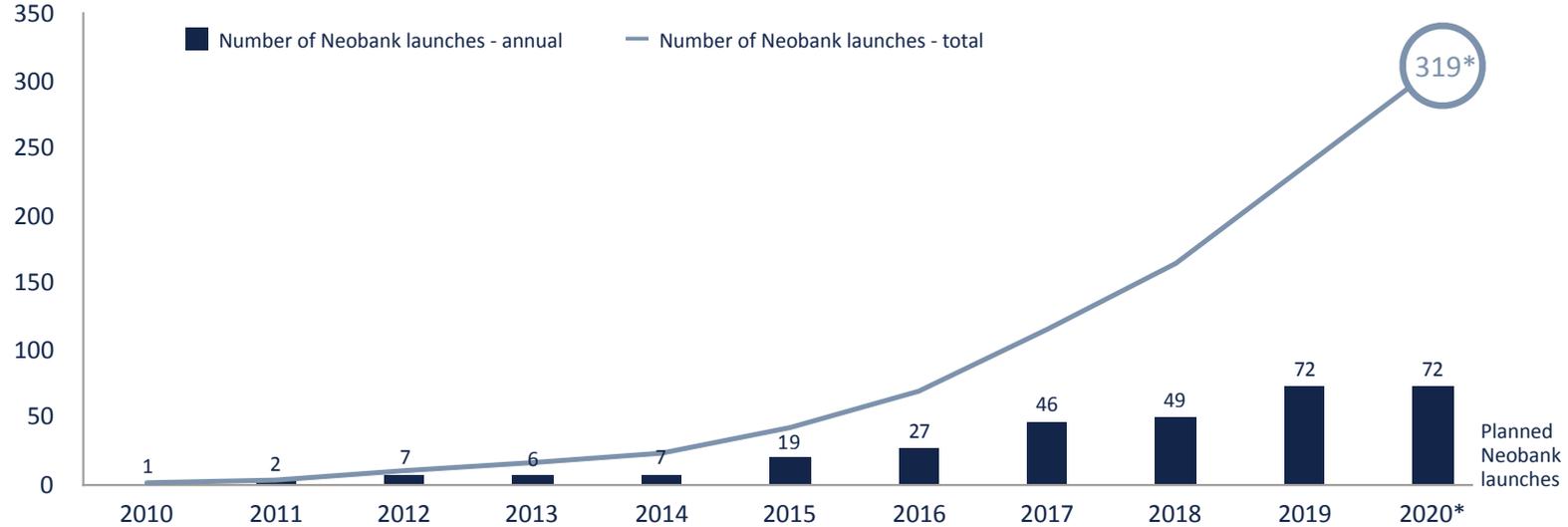
For anyone following the evolution of digital startups in Financial Services, it has likely been a difficult task to keep count of all the Fintechs, Insurtechs and Regtechs popping up across markets. Regularly published FinTech “radars” may seem to be out-of-date the second they hit the web, and often show a myriad of players disrupting the Payments, Lending, or Banking as a Service landscape - just to name a few. A study conducted by Exton earlier this year on the French market, for example, counted more than 350 local Fintech startups in France alone.

Yet, for a long time, Fintechs rather focused on solving a specific financial pain point, while the setup of full Neobanks, launched to effectively compete with incumbent banks, remained the exception. As we show in the figure below, that began to change around 2015 when an increasing number of early-mover digital banks started to offer a blueprint for many others to follow suit. By 2019, more than 70 Neobanks launched within one year and 2020 numbers are expected to be in the same range. In other words, over the last two years there was a Neobank launched every five days somewhere in the world.

Five or six years ago, the Neobanking revolution was largely focused in Europe with some of the earliest mobile-centric and user-experience-focused examples seeing the light in the UK, France, Finland, Germany or Russia. Different from back then, Neobanking

NEOBANKS WORLDWIDE LAUNCHES FROM 2010

Number of launches per year



* Includes Neobanks launched until July and planned to launch throughout 2020

Source: Data from the Exton NeoBanking Database comprising over 300 Neobanks worldwide. It includes “dead” neobanks: launched but not operating anymore (e.g. B6)

is now a truly global phenomenon and the universe of players is spread across the globe with an increasingly complete coverage of segments and banking models in major markets also in Asia-Pacific and the Americas. Latin America for example has seen an exceptionally dynamic evolution with now close to 50 live Neobanks following the footsteps of the Nubank success story in Brasil. China in turn has witnessed a unique development with the explosive growth of financial ecosystems like Ant Financial and WeBank which – apart from attracting hundreds of millions of clients and gaining a dominant position in payments – have successfully expanded into consumer lending and other products. Country-by-country differences are enormous and while on one hand this demonstrates different levels of

entrepreneurship across countries, it is also a result of perceived market opportunity left open by the incumbent banks. Two noteworthy examples in Europe are the UK and Poland. While the UK has produced 37 Neobanks already and thus shown the biggest individual innovation capacity in the sector, Poland is still waiting for its first home-grown pure digital bank (Note: mBank despite its digital reputation is not considered a Neobank in our analysis due to its history and existence of a branch network). It is likely not for the lack of opportunity in this country which is widely considered as one of the most digital banking countries overall but rather resembles a fear of not being able to differentiate and compete vs. the strong and highly digital incumbent banks in the country.

EXTON'S GLOBAL NEOBANKING COUNTRY INDEX

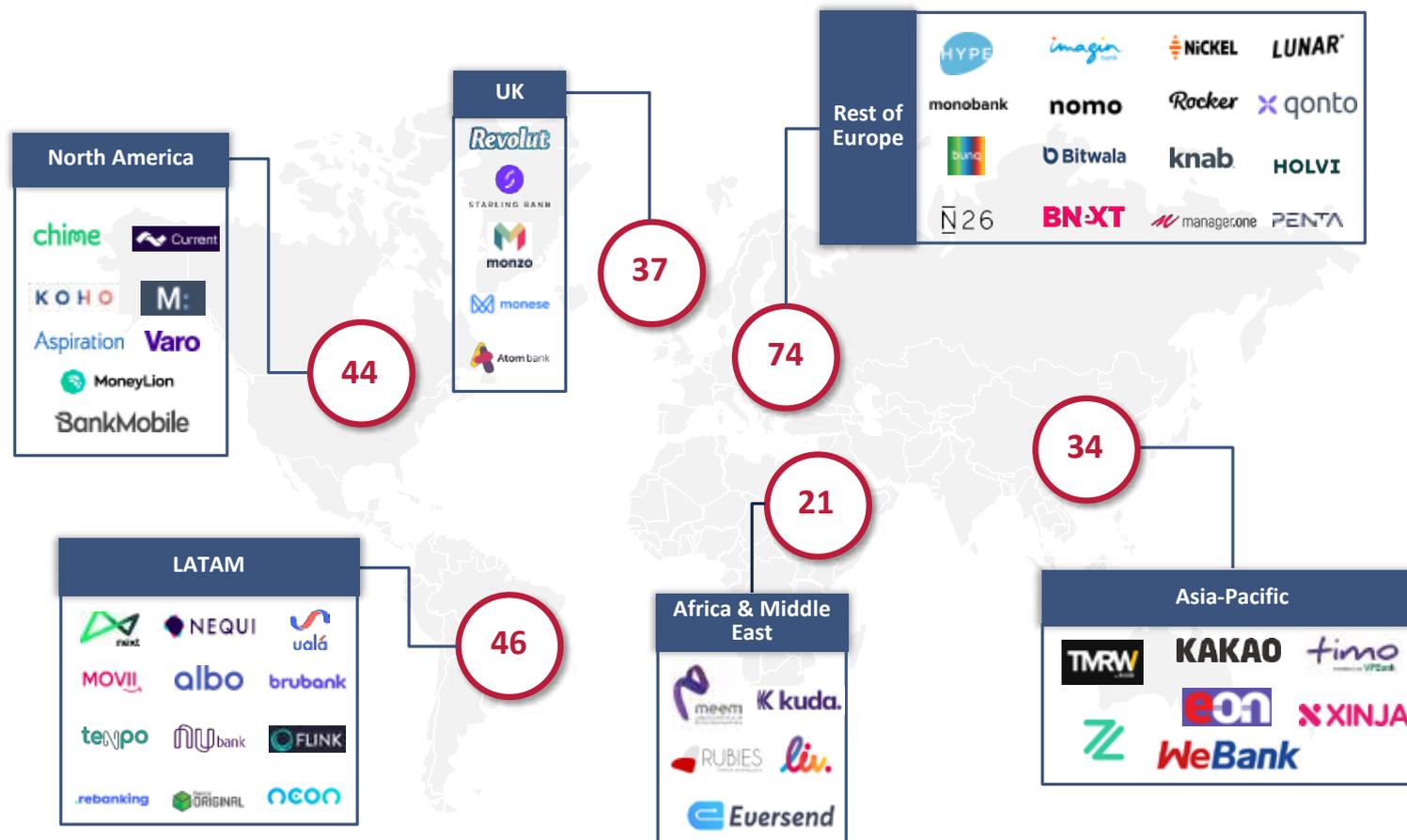
Following a “scale first” strategy, a growing number of Neobanks in our database have expanded their services to outside their home country and – unsurprisingly – EU based banks have been most active in that regard making use of EU passporting mechanisms. Currently 43 Neobanks (~17%) are operating multi-geography, with Revolut and Transferwise being the most global examples operating already in 36 markets and plans to expand further in the near future. Revolut’s stated ambition includes a launch in Brazil, Canada, Hong Kong, New Zealand and the UAE, whereas Transferwise recently expanded their global card issuing partnership with Mastercard.

However, despite the early-mover advantage these multi-geography banks had in launching, recent numbers suggest that “local heroes” can still attract significant client interest. This is showcased by the strong growth of domestic players like Bnext in Spain or Hype in Italy.

But with local Neobanks growing quickly and new market entries happening frequently, the white spaces and opportunities are closing fast and first mover advantages are becoming ever more rare outside of niche and segment-specific offerings. For those that are considering the launch of a new Neobank or the expansion to other countries, it now becomes increasingly crucial to prioritize where and in what segment to launch. Many of our discussions with market participants have therefore circled around the following questions:

- What countries are the global champions in Neobanking? And what can be learned from the disruptors that excelled in those markets?
- In which countries and segments does White Space still exist, i.e. an opportunity to develop a clearly differentiated value proposition in a significantly digital and large market?
- And how can individual country opportunities possibly be compared and ranked?

“LIVE” NEOBANKS OVERVIEW WORLDWIDE^{1,2}



1) Data from the Exton NeoBanking Database comprising over 300 Neobanks worldwide
 2) Neobanks are counted one time in their country of origin

To inform these discussions we have developed a Country Neobanking Index that covers 40 countries with noteworthy activity in that sector and measures the evolutionary stage of Neobanking across 3 major areas:

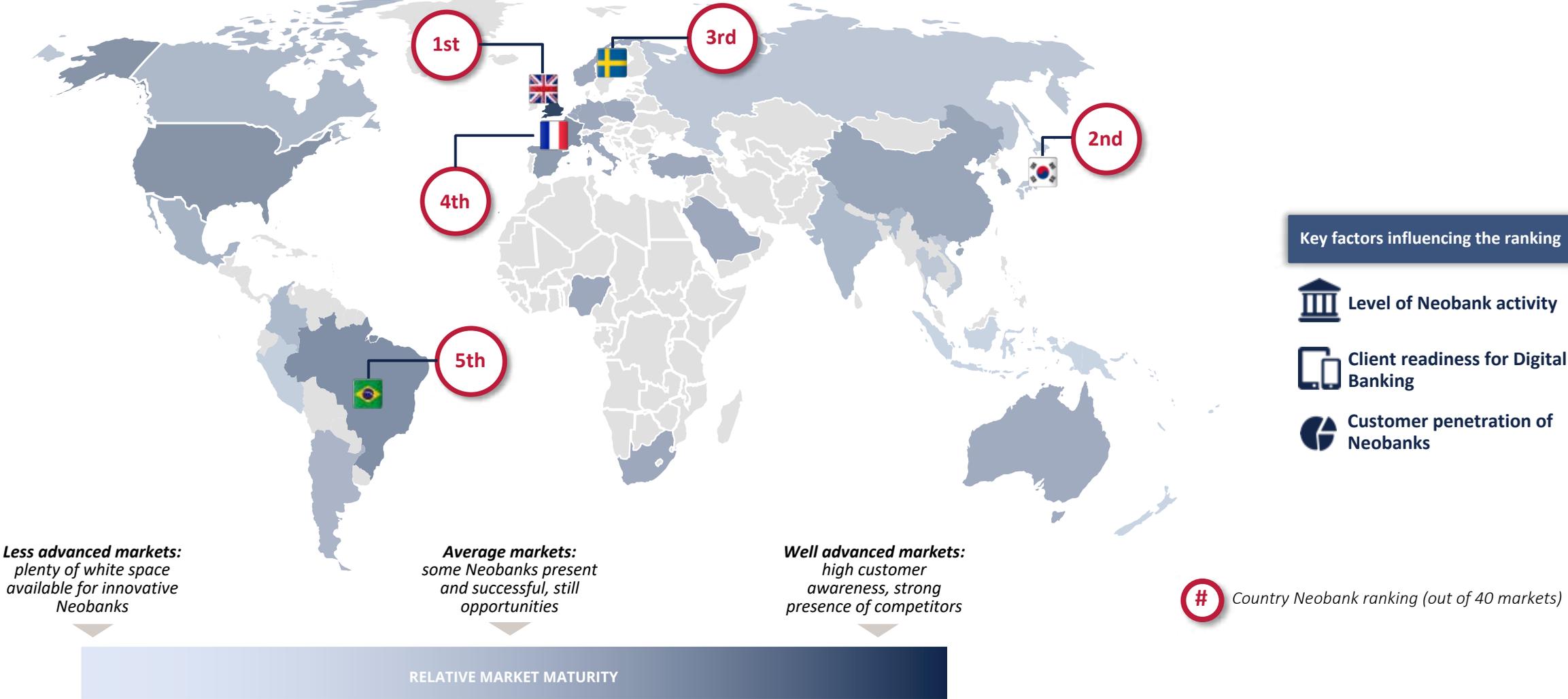
- Level of Neobank activity
- Client readiness for Digital Banking
- Customer penetration of Neobanks

The results of this analysis confirm that Europe is still the engine for innovation with three of the five most advanced Neobanking markets being located there: the UK as the Neobanking powerhouse, followed by Sweden and France. At the same time, other global markets are catching up quickly, most notably South Korea and Brazil but also the US. China, which given its unique development is difficult to compare to other markets, remains unrivalled with respect to client reach of their financial ecosystems.

Among the countries that finished surprisingly low in our assessment are Poland at No 25 and Japan at 30, but also Germany, the leading country in the era of direct banks², not making the Top 10 list of Neobanking countries. Those are the geographies where white space remains for innovative contenders and where we subsequently expect more activity in the years to come.

EXTON WORLDWIDE NEOBANKING INDEX

Source: Exton NeoBanking Database and Analysis



2. For a history of direct and digital banking and the definition of direct banks please also see our Inside Financial Services Newsletter 2: "The Neobanking Special"

KEY TRENDS AFFECTING THE NEOBANKING INDUSTRY



Digital business models often follow a similar evolutionary path. Initially most of the energy and investments are spent on ensuring quick growth to reach minimal levels of scale and market share before the reduction of cash-burn, breaking-even and ultimately profitability gain in focus. Amazon, which reported significant gains for the first time in year 9 of its existence, serves as maybe the best example that investor patience during this growth phase may ultimately pay off.

Neobanks are no different. Following an unprecedented inflow of investor money in recent years, quick customer growth and international expansion have for the most part been the prime strategic target. However, these times may now be changing, triggered at least partially by the global health crisis.

COVID-19 has caused turbulence in many industries and the Neobanking segment is no exception. While lockdowns initially created a benign environment for digital banks able to remotely manage onboarding and key servicing processes, the extended crisis highlighted also the disadvantages for the new players, often without own banking license and less experienced in managing adverse scenarios. Examples include the inability of N26 to receive unemployment payments in Spain, the exclusion of French or German SME Neobanks from the distribution of government funds, or the need for large loan provisions on the nascent credit book of Monzo. The immediate crisis response from Neobanks was no different from that of their traditional peers, announcing cost cutting and personnel reduction programs, delaying the launch of products or expansion plans and, last but not least, upward adjusting its pricing grid. Monzo for example, one of the most affected Neobanks, announced in June that it would cut up to 120 employees, even after using the UK government's job retention scheme to furlough around 300 staff. They also introduced new fees for card replacements and cash withdrawals in the UK and EEA countries, and delayed the re-launch of its premium account for several months. With the press picking up on these developments, it is no surprise that the sentiment towards Neobanks has shifted towards a more critical tone in recent months. However, this is not a

consequence of COVID-19 alone. Rather, the health crisis has acted as an accelerator to tendencies that had already started before the crisis appeared. We consider five major drivers that have created a new environment for Neobanks:

- **Increasing competition** both from other digital banks but also incumbent banks waking up to the digital threat and raising the bar for successful and differentiated Neobank offers
- **Coming of age** – with more and more Neobanks celebrating their 5 year anniversaries and getting closer to reaching their definition of scale (typically several million customers), a shift from pure growth to monetization is now increasingly expected from investors
- **Heightened regulatory focus** towards Neobanks following some process glitches and compliance gaps of leading players
- **Exploding complexity within multi-country banks** which are starting to see the difficulties of competing on multiple fronts and dividing management attention between them
- **COVID-19 impacts changing the parameters of retail banking across the globe:** rising credit defaults, shift to digital payments or the at least temporary slowdown of transaction activity

These drivers have created a new reality triggering a reprioritization of strategic actions in Neobanks as highlighted in the following table:



DRIVERS OF CHANGE

STRATEGIC ADJUSTMENTS



INCREASING COMPETITION

- › With 250+ Neobanks launched, hardly any uncontended space left
- › Incumbent banks finally waking up – defending their territory with vastly improved digital offers
- › Acquisition getting more costly – low hanging fruit of digital natives already captured

- › Choosing the battles more carefully – focus on true differentiation
- › Withdrawal from highly competed spaces / countries



COMING OF AGE

- › More Neobanks reaching the 4 or 5 years mark since launch, a realistic time to break-even
- › First banks reaching scale: Sufficient clients to start monetizing

- › Investor pressure to reduce cash-burn and shift to profitable strategies
- › Pricing strategy review
- › More narrow targeting of clients – not a bank for all but for profitable clients



INCREASING REGULATORY FOCUS

- › Compliance relevant issues surfacing in some of leading Neobanks
- › Regulators consequently starting to consider Neobanks as systemically relevant – no more “rookie bonus”
- › Multiple regulatory environments to adhere to – even within EU markets

- › Strengthening of regulatory / compliance teams
- › Setup of stricter process controls and frameworks



EXPLODING COMPLEXITY WITHIN MULTI-COUNTRY BANKS

- › One size fits all product design not specific enough to address country pain points; but tailored value proposition expensive to manage
- › Senior management capacity shared across markets
- › Different competitor landscape and client readiness for digital offers

- › Refocus on core products & geographies
- › Increased importance of local leadership teams and organisational governance



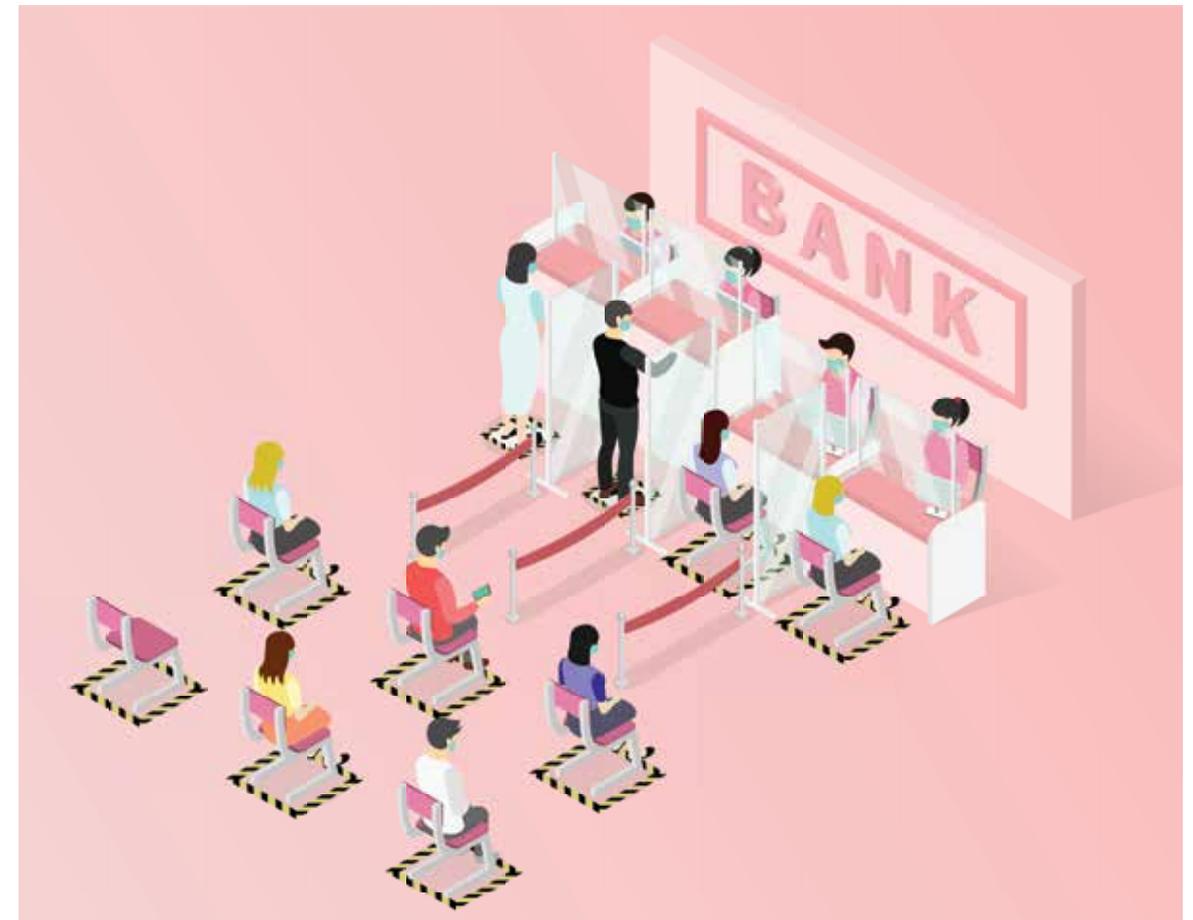
COVID-19 IMPACT

- › Reduced payment transaction activity in lockdown periods and resulting lower interchange fees
- › Increase of non-performing loans and risk in consumer loan books
- › Freelancers / Small businesses hit particularly hard
- › Highlighting the restrictions of business without a license (no access to government relief funds for clients)

- › Accelerating search for “new” revenue sources
- › Upgrade of credit risk management capabilities
- › Rethinking of licensing strategy

FROM UNCONDITIONAL TO SELECTIVE GROWTH

The bottom line of this development seems obvious: in order to survive and grow their competitive positioning, Neobanks will now need to play to their strengths rather than trying to be a jack of all trades. In other words, in order to prevail banks will need to focus on their core countries, their core products and their core differentiators and use their funding efficiently to grow in those selected areas. That may still include entering new markets and launching new products but not for the sake of putting a flag in more countries than the closest competitor without being able to subsequently digest that growth. In that regard, the announcement of banks like N26 leaving the UK, Penta leaving Italy or Soldo giving up retail products to focus only on SME banking may not only be signs of weakness but rather also be a sign of necessary focus on its core offering. And to add another proof point: 4 of the largest 5 Neobanks worldwide in terms of customer numbers have spent several years focusing on their country first before going abroad; Revolut being the only one from this list having expanded in an early stage.



THE ROCKY PATH TO PROFITABILITY – THREE OPTIONS FOR NEOBANKS

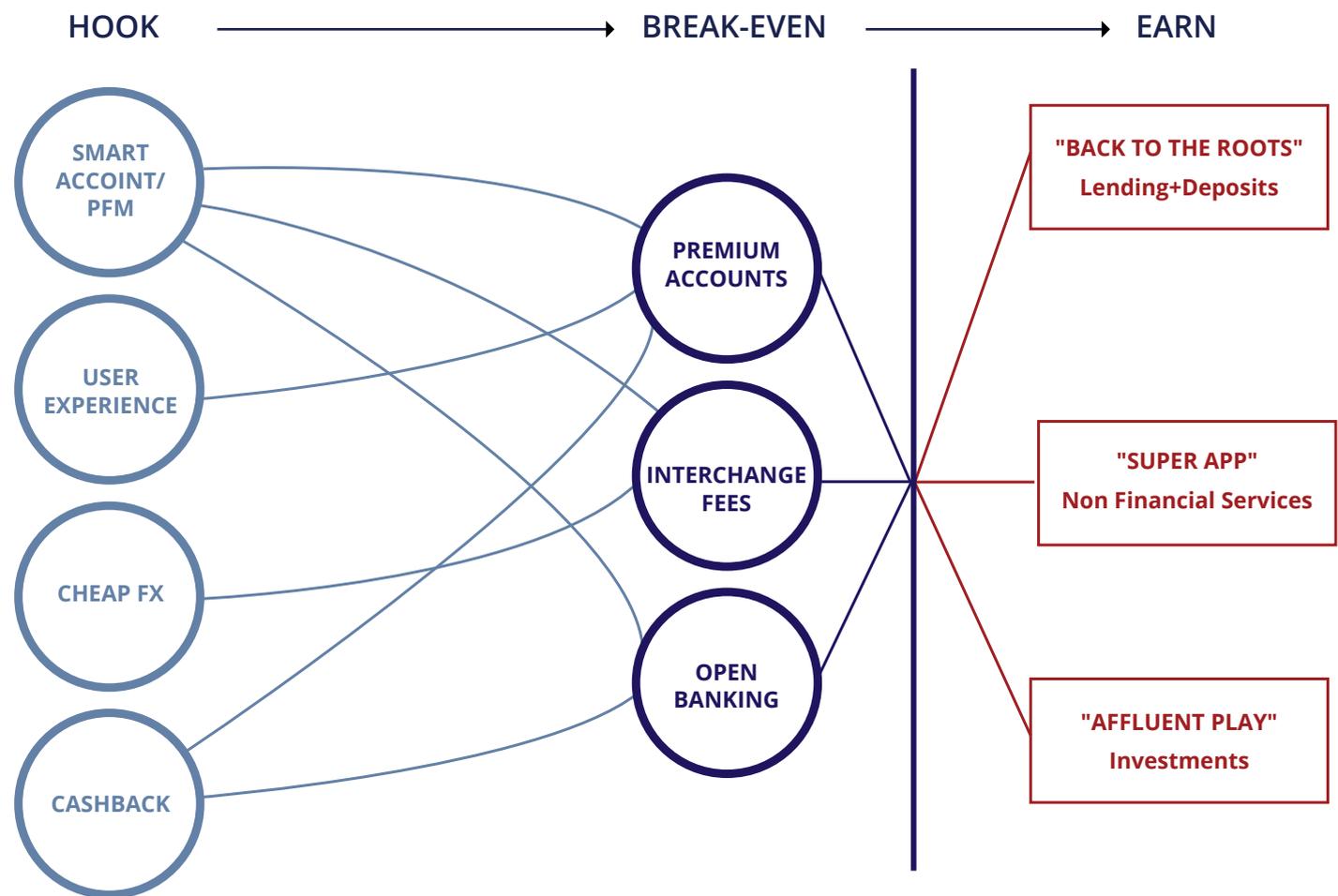


Five years after the Neobanking wave first gained momentum, the question of how these newcomers can develop a sustainably profitable business model remains largely unanswered. While company valuations have continued to skyrocket, and, in Europe alone, more than 50 million clients have opened a Neobank account, only a very small percentage of Neobanks have reached at least operational break-even. On their quest for monetizing customer relationships Neobanks have learned a first lesson: payment transaction fees, premium account subscription fees, or open banking commissions from brokering 3rd party services

will in most cases not be sufficient to generate profits or breach beyond operational break-even. Our expectation much rather is that Neobanks will need to offer additional products to jump the gap to sizable profitability. We consider at least three core strategies as promising for Neobanks:

- A. Becoming a digital lender
- B. Growing outside of Financial Services – the “Super-App” strategy
- C. Capturing the mass-affluent opportunity – “Neobanking goes Neobroker”

THE NEOBANK LIFECYCLE - THREE MAIN STAGES



OPTION A BECOMING A DIGITAL LENDER

So far, lending has played only a minor role in the evolution of Neobanks, which may be surprising knowing the importance of loans for the profitability of the banking industry as a whole. On our last count less than 50% of Neobanks were offering loans to their clients either directly or via a banking partner, with a clear regional bias towards Asia and the US where lending is a more common feature of Neobanks. The reasons for this relatively low penetration are diverse but the lack of an own banking license and the shortage of capital are probably the most important ones. At the same time, the potential to disrupt may at first glance seem smaller in the lending space than in the offer of smart account or payment services.

But the move into lending will for the majority of Neobanks be without alternative, both as it remains the possibly biggest key to profitability and at the same time resembles a critical element from the customer point of view. Moreover, digital banks hold the key to a successful lending offer in their ability to generate and analyze customer data from their account or payment relationships – often representing, due to purely digital relationships, an even larger universe of data than used by their traditional banking counterparts.

Based on our work with digital banks we consider a mix of four capabilities crucial to succeed in lending:

- **Product design skills**, developing seamless customer journeys and attractive, appropriately and transparently priced lending products
- **Credit decision engines**, that are rapidly refreshed with learnings from initially scarce internal loss data, leverage payments and access-to-account data and provide the basis for growing the lending book without putting the bank at risk
- **Collection processes**, adapted to the digital nature of the business and predictive enough to ensure focus on those cases that require immediate attention
- **Appropriate risk governance framework**, providing clear rules and transparency for well-balanced growth vs. risk and a framework for balance sheet management, ensuring that when lending is possible and commercially attractive, funding does not dry up

Arguably Neobanks are world-class in product design or at least should be given their disruptive nature. We, therefore, expect more product innovation to come in the lending space, likely breaking away from the classic lending categories such as revolving cards, overdrafts, or installment loans. Much different than in design, Neobanks have little to no experience in the other three categories, all being classic risk management areas. If all the recent news on quickly increasing defaults in Neobanks are any indication, it is likely that the race for successful lending offers will be decided in those areas as even the best product design will be irrelevant if credit decisions or collections management are inadequate to keep risk costs under control.



OPTION B GROWING OUTSIDE OF FINANCIAL SERVICES – THE “SUPER-APP” STRATEGY

It is no secret that even before COVID-19 the economics of the Banking industry as a whole and Retail Banking, in particular, had come under pressure. In a recent Exton analysis on the future of Retail Banking, we saw that total market revenues for Retail Banking in countries like France or Germany have already dropped by more than 5% since its peaks a few years ago. With interest rates remaining at an all-time low and increasing competition from digital banks, the outlook is equally challenging. It is no wonder that banks have, therefore, laid eyes on adjacent market opportunities in an attempt to increase the overall size of the pie. The reality, however, is that these efforts are in a nascent stage and banks are still generating the vast majority or all of their income from banking or insurance products. Emerging examples of a move into non-financial service areas are interesting but rare, like ING’s launch of Dealwise or DBS’ marketplaces including cars or travel offers.

On the contrary, the banking industry has seen an inflow of competition from non-banking providers. The tech giants such as Amazon, Google or Apple are gradually moving deeper into the financial services world. Telcos – despite some less successful attempts in the past – continue to test collaboration models or build their own financial offers, and retailers are becoming more active around payment solutions and adjacent services. All that is leading to an increasingly crowded Retail and SME banking space, exactly where Neobanks are aiming to gain ground.

But there is also good news for Neobanks: being digital startups themselves, their DNA is presumably well-suited to explore new digital opportunities outside of the narrow banking world. And in doing so, they should be much quicker than their traditional peers that often lack the people, mindset or simply the appetite to grow into adjacent spaces.

For the most ambitious among them, the “Super-App” strategy appears to provide the greatest benefits. In simple worlds, Super-Apps can be described as mobile solutions providing multiple products or services from different industries in one single App, combining in-house and 3rd party developed offers. The concept is rather common already in countries like China where WeChat and Ant is highly popular, but banks like Tinkoff in Russia or Emirates NBD have launched their own successful examples in other geographies as well. Their offers provide interesting role models for international Neobanks and we expect an increasing number of them to stop focusing all energy on competing with their peers on the smartest PFM or payment solution but rather look into opportunities outside the Financial Services world.



OPTION C

CAPTURING THE MASS-AFFLUENT OPPORTUNITY – NEOBANKING GOES NEOBROKER

The third possible path for Neobanks to profitability is supported by a look back in history. When direct banks launched early in the century, – back then still focused on desktop banking – one of the most profitable niche plays was the offer of online brokerage accounts: promising clients a cheaper and easier way to trade stocks or funds. Many of these brokers are still around, however, the big hype surrounding them is long gone. The underlying economic principle, however, of earning a commission on every trade while keeping costs at a minimum is still intact despite a significant pressure on margins in that sector.

That trading-focused business model is currently experiencing a renaissance as a new wave of mobile brokerage focused players has emerged, the so called Neobrokers. Their underlying concept focuses on commission-free trades from retail customers, a scheme pioneered by Robin Hood in the US and copied by multiple startups that are now showing steep growth rates, including for example Trade Republic in Germany. Being so close to the traditional Neobanking model, the synergies between both businesses are striking. In particular, the advantage of sizeable customer groups that could be cross-sold a brokerage account should provide ample reason for considering the launch, acquisition of or partnering with a Neobroker.

Irrespective of which path Neobanks will take, we remain convinced that they will need to shift into profitability mode quickly as investor patience will not be unlimited. But for those that select the paths right for them, stay focused on it and grow up as an organization, the future remains bright and full of opportunities.



INTERVIEW

LAUNCHING NEOBANKS IN LATIN AMERICA

Marco Roca
CEO Krealo



TELL US ABOUT WHAT KREALO IS AND ITS PATH SINCE ITS LAUNCH IN 2018.

Krealo is Credicorp's open innovation subsidiary created in March 2018 with the purpose of re-imagining financial services in LatAm. It seeks to complement Credicorp's internal transformation efforts, by building, growing, and investing in Fintechs across Peru, Chile, and Colombia covering a market of 100 million people.

To this end, Krealo resorts to a variety of proven innovation tools such as company builder, corporate venture capital fund, M&A, Buy and Build strategies to accomplish its strategic goals. Krealo is a 2-layer organization akin to a hands-on venture capital firm (dubbed Krealo) and portfolio companies (referred to as ventures). Krealo combines the experience and financial know-how of Credicorp, with the agility and non-conformist mindset of Fintechs, to offer new user-centric digital businesses.

Krealo is an independent subsidiary within Credicorp and governed by a Board composed by the 3 most senior leaders of the group and 3 independent members with vast experience in venture capital and business development. The Board sets portfolio's strategic direction, approves fintech investments, and monitors operations of portfolio companies.

Krealo then supports ventures on defining strategy, product roadmap, ensuring strong unit economics to enable high and sustainable growth with scalable technology and operations. Furthermore, Krealo bridges ventures with Credicorp assets to unleash collaboration synergies without the burden of corporate bureaucracies.

At the venture level, Founders are entrusted with executing the overall strategy and more importantly scaling the businesses. They are empowered with autonomy and leeway to operate their ventures, their profile is diverse, but they all share a common thread: willingness to embrace

change and uncertainty. Credicorp has set up a new compensation scheme allowing venture upside to be shared handsomely with Founders. Finally, each venture also has a Board with Krealo, Credicorp and independent members.

In Latin America, 50% of people do not have a bank account, 90% do not have a voluntary investment product, and 70% of the SMEs do not have a payment solution. Krealo sees the expansion of financial services through technology as a large opportunity and targets 3 investment theses: e-commerce, SME digital services, and Consumers Digital banking.

For the e-commerce, we have invested in the marketplace Lumingo which gives access to businesses to a digital sales channel. Also, we acquired Culqi, a Peruvian payment gateway that allows businesses to process payments on their eCommerce platforms.

For our SME Services, after our acquisition of Culqi, we developed an MPOS solution targeting the long tail of Peruvian SMEs with the objective of complementing Credicorp's battle against cash. We also invested in Wally, a Peruvian Point of Sale SAAS offering which gives businesses the tools they need to manage their day to day operations and finances.

Finally, for our Digital Consumer segment, we have a digital investment broker in Colombia, Tyba, which allows people to invest in financial instruments with small tickets. Also, we have Tenpo, a financial ecosystem that aims to be Chile's first neobank. It currently offers transactional services such as P2P transfers, international and domestic purchases with a digital card, mobile top-ups, utility payments, and withdrawals from PayPal accounts.

After 2 years of hard work, in 2020 we launched all our ventures to market reaching close to 600,000 customer and are currently focused on early growth and finetuning operations, engineering, product offering. Next year 2021, Krealo will focus on scaling its portfolio ventures.

YOU HAVE ESTABLISHED A PRESENCE IN CHILE, PERU, AND COLOMBIA AND EXPERIENCE IN ALL OF THOSE MARKETS. HOW WOULD YOU CATEGORIZE LATIN AMERICAN IN TERMS OF INNOVATION CAPACITY AND OPENNESS FOR DISRUPTION?

The region has pent-up demand for more inclusive and disruptive financial services and has a large talent bench to make it happen.

In our years in the financial services business, we have encountered many people with strong skillsets comparable to those of highly developed innovation hubs. The whole startup ecosystem is maturing as well with strong angel networks, experienced venture capital firms, innovation-friendly regulatory bodies, and successful entrepreneurial stories to go around.

Latin America's financial markets are dominated by traditional players, and the system's infrastructure is still lacking. However, both incumbents and regulators are quickly evolving to embrace fintech models, recognizing the value they bring to the table. We believe that the disruption wave is catching on, and the start-up ecosystem has come a long way.

HOW WOULD YOU COMPARE THAT TO THE US OR EUROPEAN MARKETS?

The US and European markets are still ahead of us in terms of mature startup ecosystem but LatAm has made great strides in all dimensions. The innovation and technological infrastructure of hubs such as Silicon Valley or Berlin, long-standing VC funds, a large pool of highly educated entrepreneurs and research institutions will take long to replicate in LatAm but we have the growth factor in our favor, a homogeneous large population of consumers and SMEs without access to financial services but high level of cell phone penetration.

LatAm also has the execution factor, the region does not need to breed complex innovation breakthroughs, it does need execution excellence to deploy existing innovation at a lightning speed.

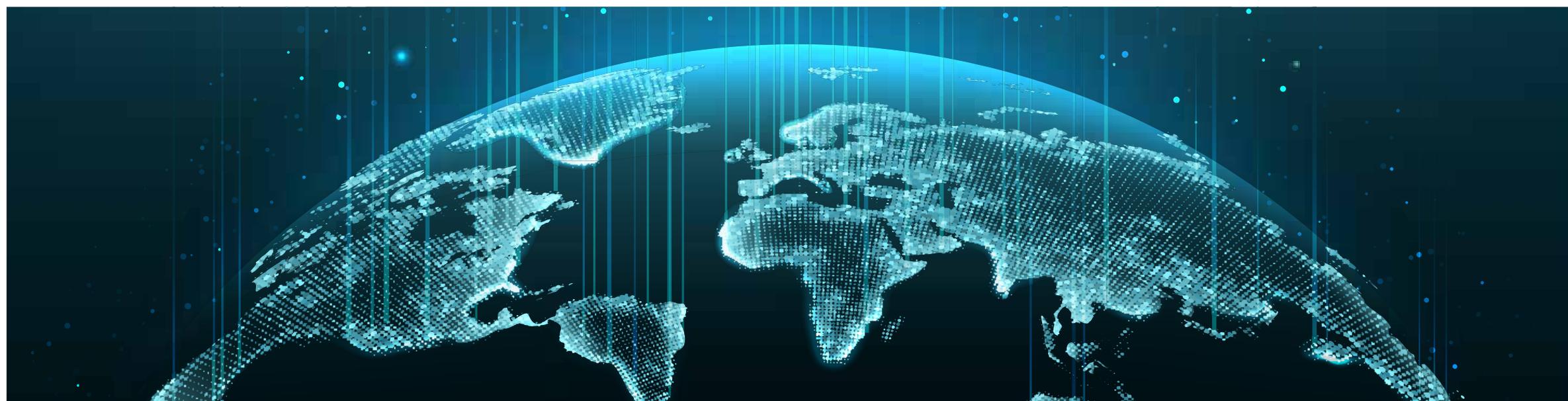
As worldwide venture capital funding gets allocated towards the region, LatAm will keep on minting more unicorns. Digital inclusion will pave the wave for more inclusive financial services in the region unleashing.

WHAT ARE YOUR SHORT-TERM GOALS IN 2021 AND LONG-TERM GOALS?

Krealo and Credicorp have a long-term strategic perspective to their investments, that is why we have allocated patient capital to the portfolio ventures. Our final objective is to increase Credicorp's market capitalization and to upgrade Credicorp's traditional business models with new digital ventures.

The Value Creation formula of Krealo is rooted in providing growth into new segments and products while improving operating margins through efficient distribution models. Krealo Portfolio ventures make up a digital ecosystem that serves consumers and SMEs across Peru, Chile and Colombia paving the way of a Credicorp's New Digital Offer to reach the existing underbanked and underserved population.

In 2021 our strategic focus is to scale our ventures and increase user engagement. With this in mind, we are developing organic channels as well as partnerships with Credicorp's companies and other market leaders. Also, we are listening closer to existing customers' needs to adapt product offers and potentially accelerate the cross-selling of financial products.



HOW SUCCESSFUL HAVE YOUR TWO FIRST INTERNATIONAL VENTURES BEEN SO FAR AND HOW DID COVID19 IMPACT THEIR GROWTH PATH?

Krealo is a regional player and considers LatAm as its natural market, so we consider all ventures local businesses. My guess is that you are asking for teNpo in Chile and tyba in Colombia, both launched in 2020. At Krealo, we consider both ventures as natural extensions and will seek to bring them together at some point to reinforce the value proposition for customers.

When the crisis first started in March, hitting the financial markets, tyba, an online broker, faced considerable redemptions. Clients were understandably uneasy and wanted to take their money out. However, as the markets stabilized, we started seeing inflows and new clients coming in seeking to take advantage of the low asset prices and our simple onboarding process. Our assets under management quickly recovered and got back to pre-crisis levels by late April and have climbed almost 20x from that point. We are extremely proud of tyba's results so far and believe firmly in its mission to democratize investing by providing a wide range of investment products, from term deposits to stocks, with an initial investment of as little as US\$ 30. tyba's success in Colombia has encouraged us to expand internationally and soon we will land in Peru.

Tenpo, our growing financial ecosystem in Chile built around a digital account has shown non-stop growth since our pilot phase in February throughout our official launch in July. Daily onboardings have grown steadily as we scale our operations and introduce new functionalities, such as instant transfers, domestic purchases, utility payment and PayPal withdrawals. During the lockdown weeks in March and April, growth accelerated as users looked for an electronic payment solution with a seamless, all-digital onboarding process. We believe we have a long runway ahead of us, as we work to become Chilean's primary account that offers a smooth experience without the drawbacks of regular bank accounts. By the end of the year, teNpo will launch "pockets" a feature that will allow users to put away money into a Credicorp's money market fund allowing them to collect investment returns. With this, teNpo will become the best digital account in the country right on track to become the best "account", competing with traditional banks in 2021.

ANY GUESS ON WHAT WILL BE THE KEY TRENDS THAT WE WILL BE SEEING IN THAT SEGMENT? IS THE MOVE TO LENDING THE OBVIOUS PATH FOR NEOBANKS?

The market is evolving very rapidly, and it is hard to tell how things will shape up exactly. However, I do see some important trends in the space. First, non-banking players will continue to enter the market, trying to complement their offerings with financial services. They will do it using creative approaches, such as joint ventures and profit-sharing schemes with traditional players, or by building a marketplace for financial services companies to offer their products. Second, incumbents will continue reacting to the threat of emerging fintechs, by accelerating their digital

transformations or by launching smaller players to compete directly with the new participants. Finally, companies in the segment that have yet to turn a profit will start looking for ways to monetize their user bases. The lending book business is a potential answer, but it faces relevant hurdles such as lack of deposit base and expensive funding costs, undeveloped risk models and regulatory capital constraints. There are other monetization levers that have worked overseas, such as selling or underwriting insurance products, and developing subscription and premium services, which could be interesting.

TeNpo and tyba are embryos of Krealo's Consumer Digital banking grand plans, both will follow customer needs to claim their primary bank relationship. We believe that lending is in the roadmap and will not be shy to offer it when timing is right.



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