

# APAC DIGITAL BANK LANDSCAPE

WHERE TO FROM HERE?

Hello

MAY 2023

QUINLAN  
& ASSOCIATES

# TABLE OF CONTENTS

SECTION	TITLE	PAGE
Section 1	UNADDRESSED DEMAND	6
Section 2	ENTER THE DIGITAL BANKS	13
Section 3	KEY CHALLENGES	31
Section 4	SUCCESS CASES	37
Section 5	THE WAY FORWARD & HOW WE CAN HELP	45

# EXECUTIVE SUMMARY (1/3)

## UNADDRESSED DEMAND

- Within the traditional banking system in APAC, there remains large unbanked and underbanked populations who are unable to access any / full banking services, particularly in developing markets; while in developed markets, traditional banks also tend to fail to provide customers with a personalised and streamlined digital experience, resulting in customer dissatisfaction.
- SME customers also face several pain points in their banking journey, including a slow and paper-based account onboarding process, lengthy loan application processes with tedious documentation requirements, as well as onerous annual account reviews. Most importantly, many MSMEs in the region struggle to secure credit within the traditional banking system.

## ENTER THE DIGITAL BANKS

- To address customer pain points and to meet the emerging demands and growing digital preferences of customers, there has been a surge in digital-native banks that have launched in APAC markets, with over 40 having been launched to date.
- Digital banks are utilising a wide variety of cutting-edge technologies to improve the customer experience along the end-to-end value chain, including, for example:
  - **Customer awareness:** social media, targeted ads, and SEO / ASO
  - **Customer onboarding:** OCR, facial recognition, and data verification tools
  - **Customer engagement:** gamification, budgeting tools, and social connectivity features
  - **Product / service offerings:** credit scoring, robo-advisory, and payment rewards
  - **Customer Maintenance:** chatbots, live chat, and 24x7 hotlines
  - **Data Management:** cloud, cybersecurity, and fraud detection software
- In addition, many digital banks in the region are also focusing on building partnership ecosystems in an effort to enhance product development, drive their distribution efforts, and enhance customer loyalty.

# EXECUTIVE SUMMARY (2/3)

## KEY CHALLENGES

- While early entrants in markets like Japan, Mainland China, and South Korea have established a substantial customer base and are generating profits, newer digital banks in the region are facing significant hurdles in breaking even. Taking Hong Kong as an example, since the market entry of all 8 players back in 2020, none have managed to turn a profit, recording sizeable losses.
- The cost of customer acquisition (“CAC”) has been a significant challenge for many firms, especially those operating in developed markets like Hong Kong, with CACs for retail customers ranging from USD 65-90 (vs. USD 15-50 in emerging Asia and USD 1-5 in frontier Asian markets).
- Substantially lower average deposit levels per customer compared to traditional banks, being 10 times lower on average in markets like Hong Kong, also limits the ability for digital banks to effectively monetise their customer base via lending and investment products.
- Digital banks also face a number of over-arching challenges such as trust issues, data security, talent retention, and stiff competition from both other digital banks, as well as a growing number of traditional banks who are investing heavily in their digital transformation efforts.

## SUCCESS CASES

- Taking a look at some of the profitable digital banks operating globally, we observe some key features of their business models:
  - **WeBank:** capitalised on Tencent’s vast customer base, developed an online collaborative lending model, and created proprietary advanced risk models that enables the bank to approve loans in just 2.4 seconds.
  - **KakaoBank:** monetised its customer base by offering a range of products, especially a wide variety of loans, while providing a uniquely gamified customer experience.
  - **OakNorth Bank:** developed an advanced credit scoring model that has enabled it to grow its loan book significantly and expand its business through licensing.
  - **Airtel Payments Bank:** attracted a large number of users and deposits by offering high interest rates, monetising customers through cross-selling third-party offerings.
  - **Starling Bank:** catered to older, more affluent customers, expanded its mortgage lending business, and built a marketplace for third-party offerings.

# EXECUTIVE SUMMARY (3/3)

## THE WAY FORWARD

- There are a number of key considerations that APAC digital banks must address in charting their path to profitability, including:
  - **Acquisition:**
    - **Customer acquisition:** rapidly acquire new customers while keeping CAC in check.
    - **Customer experience:** optimise UI / UX to offer a truly superior and engaging customer experience across the end-to-end value chain.
  - **Monetisation:**
    - **Interest income:** secure a sizeable, sticky deposit base to scale targeted lending activities with key unbanked / underserved customer segments.
    - **Non-interest income:** launch suitable fee-based product / service offerings in key white spaces to drive non-interest revenue streams.
    - **Cross-selling:** develop a clear strategy – and automated process to – drive cross-selling.
  - **Strategic Superchargers:**
    - **Third-party partnerships:** actively identify and engage with relevant partnerships to refine product / service proposition and scale distribution efforts.
    - **Ecosystem / Platform proposition:** develop a self-sustaining ecosystem that acts as a bridge between customers and partners.
    - **Geographic expansion:** leverage existing capabilities and track record to expand into new markets, either organically or inorganically.



SECTION 1

---

# UNADDRESSED DEMAND

QUINLAN  
& ASSOCIATES

# APAC MARKET GAPS: RETAIL & MSME BANKING

## Key Takeaways

The APAC market has a sizeable unbanked population, particularly in the Philippines, Vietnam, Indonesia, and Pakistan, where retail customers lack access to basic banking services. The credit demand gap for MSMEs also remains unaddressed in many markets due to limited financing options, limited data availability, and hefty collateral requirements.

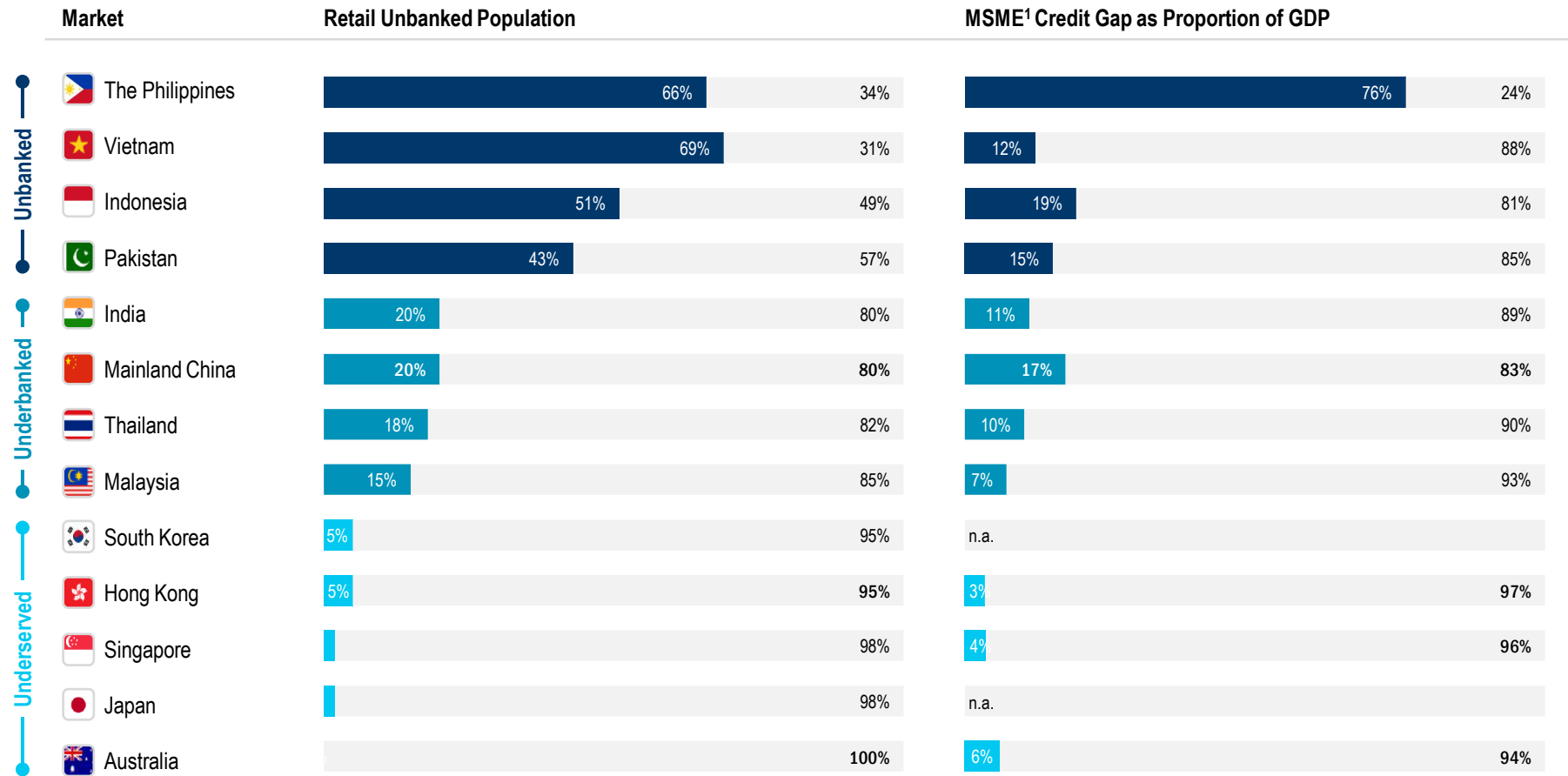
In other developing countries within the APAC region, such as India, Mainland China, Thailand, and Malaysia, both retail and MSME customers may be underbanked, meaning they may have access to basic banking services but not to the full range of financial products and services available in the market.

Even in developed APAC countries, where the unbanked / underbanked population may be small, there are still evolving customer demands that may be underserved by traditional banks, including highly personalised and digital experiences.

While market structure dynamics in APAC are far from homogenous, many emerging Asian economies have sizeable unbanked populations and MSME financing gaps

## Market Gaps

2022E



Note: <sup>1</sup>Micro, Small and Medium Enterprises

Source: World Bank, International Finance Corporation, InvestHK, The Adviser, Global Finance, Merchant Machine, Quinlan & Associates estimates

# RETAIL PERSPECTIVES: UNBANKED SEGMENTS

## Key Takeaways

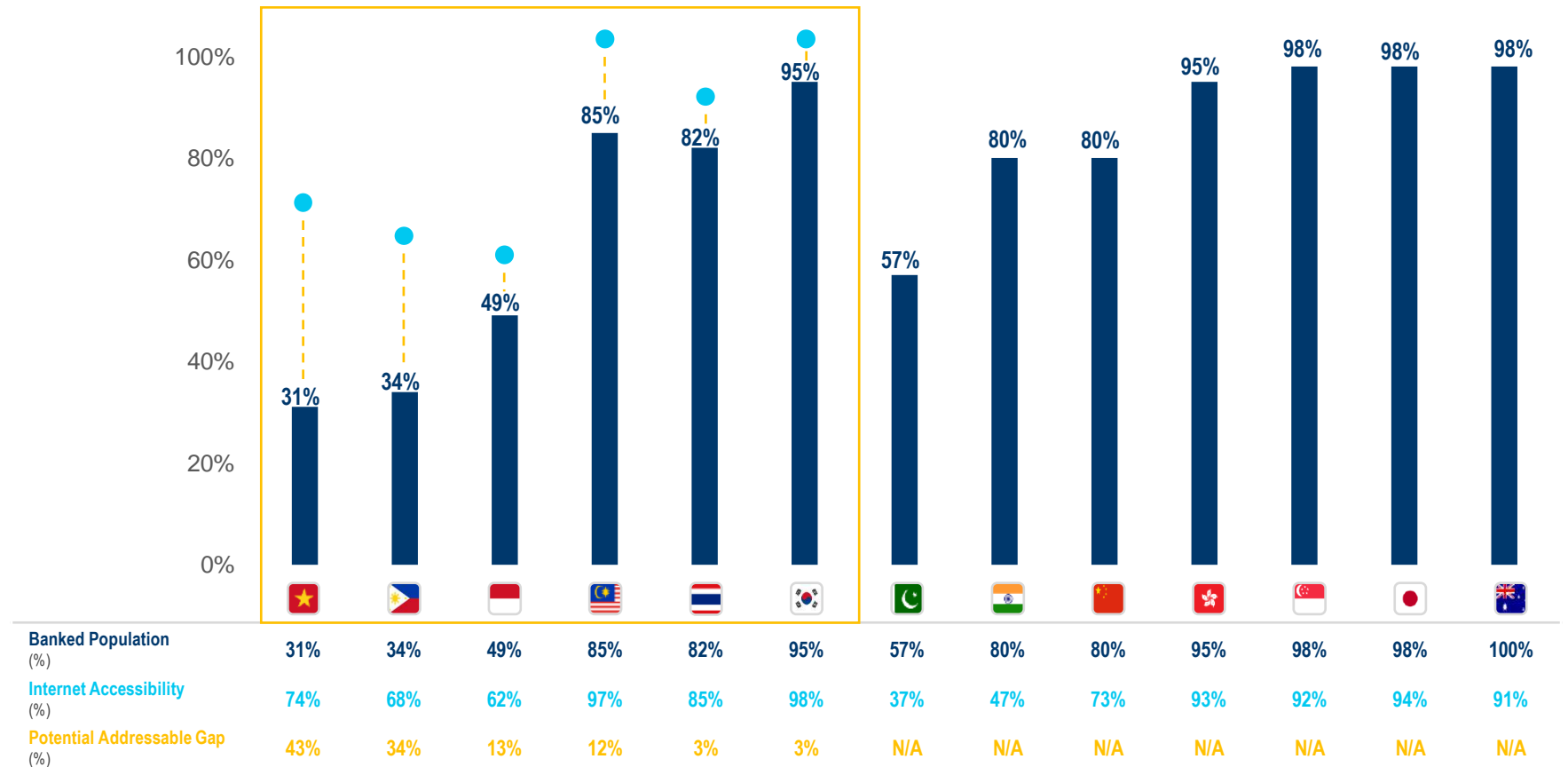
While a significant proportion of the population in emerging APAC markets is still unbanked, the rapid growth of internet accessibility in many of these countries presents a unique opportunity for digital-first banks to acquire new customers who have access to the internet but have yet to engage with banking services.

By tapping into a more digitally savvy customer base, digital banks can offer tailored solutions that meet the needs of long-tail unbanked / underbanked customers, including those in rural or remote areas where traditional banking services may not be readily available.

## Rising internet accessibility offers digital-first players in emerging Asia the ability to access previously untapped customer segments

### Untapped Potential Upside

2022E





# RETAIL PERSPECTIVE: UNDERSERVED SEGMENT

## Key Takeaways

The traditional banking model is plagued by numerous pain points for retail customers throughout their end-to-end journey.

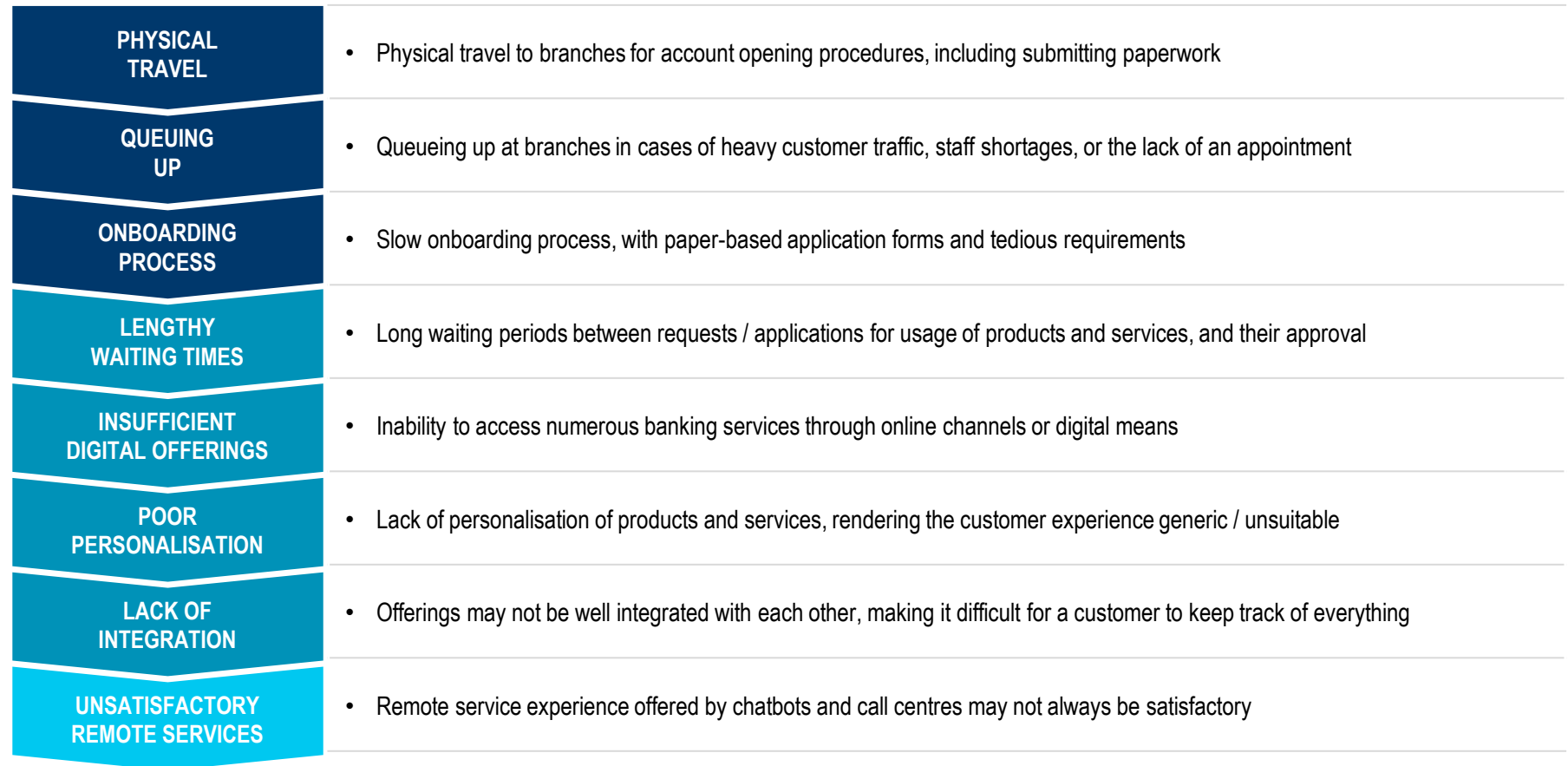
This includes having to physically travel to branches for account opening, lengthy waiting periods between requests and approvals, and a lack of personalised products and services.

Additionally, the remote service experience offered by incumbent banks' chatbots and call centres are often viewed as unsatisfactory.

## Existing customers of many traditional banking institutions experience a variety of lingering pain points across their end-to-end journey

### Underserved Retail Customer Pain Points

Overview



■ Onboarding ■ Product Access ■ Services

# MSME PERSPECTIVES: PAIN POINTS

## Key Takeaways

SME customers also face several pain points in their journey, including a slow, manual, and paper-based account onboarding process, lengthy loan application processes with tedious documentation requirements, as well as a onerous annual account reviews.

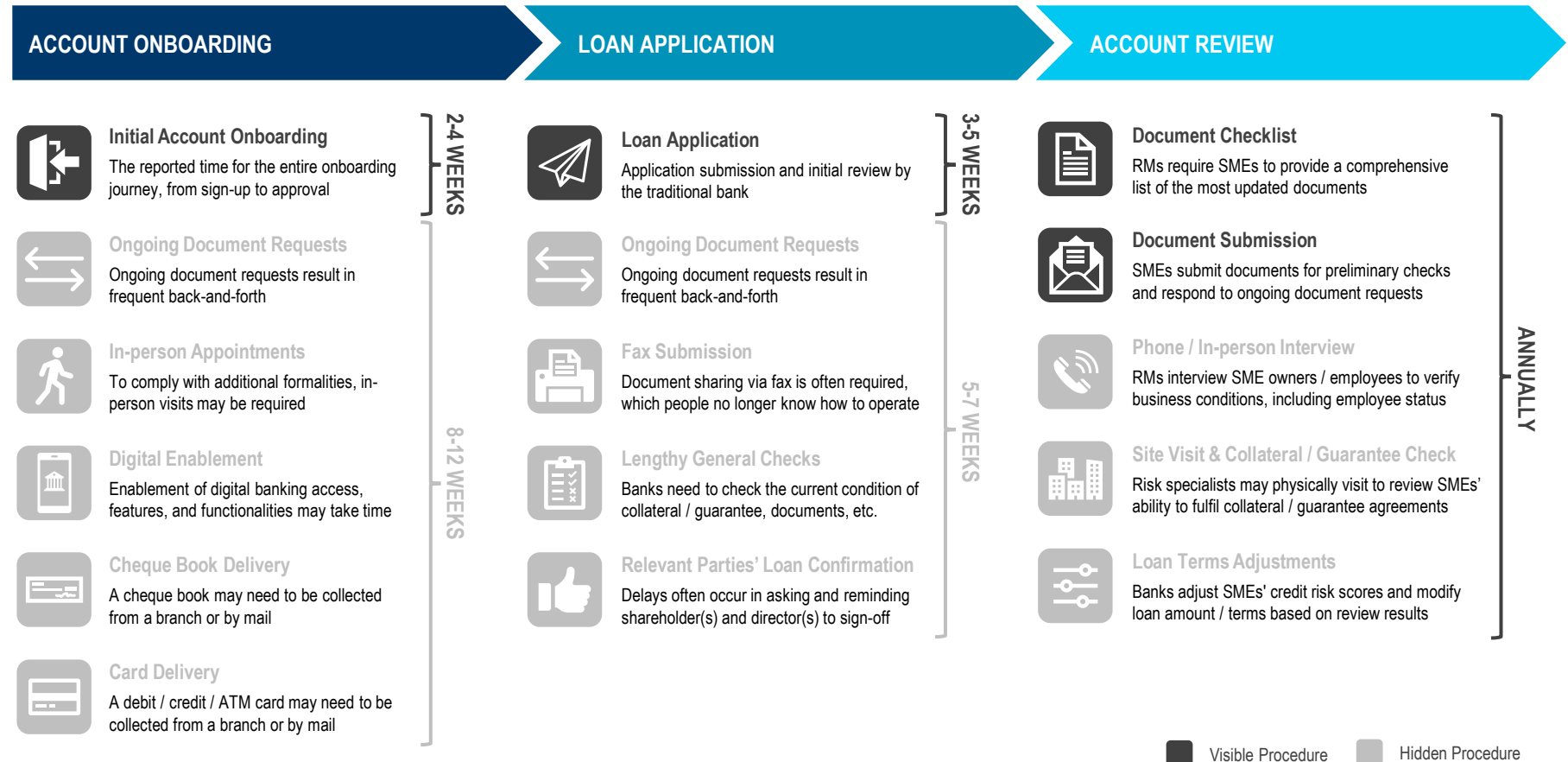
Especially for loan applications, SMEs may face challenges posting collateral, and many banks may be unwilling to approve their credit applications due to their small size and higher perceived risk.

These pain points can drastically hinder SME credit access and customer experience, leading to considerable funding gaps and customer dissatisfaction, with many SMEs forced to seek out alternative financing solutions.

## MSMEs also face slow onboarding times, as well as stringent loan application and annual review processes, leading to significant credit demand gaps and customer dissatisfaction

### MSME Value Chain Pain Points

Overview (Hong Kong)



# MSME PERSPECTIVES: CREDIT GAPS, MALAYSIA

## Key Takeaways

Due to rigorous loan application requirements and annual reviews, many MSMEs in emerging APAC markets face difficulties in securing credit.

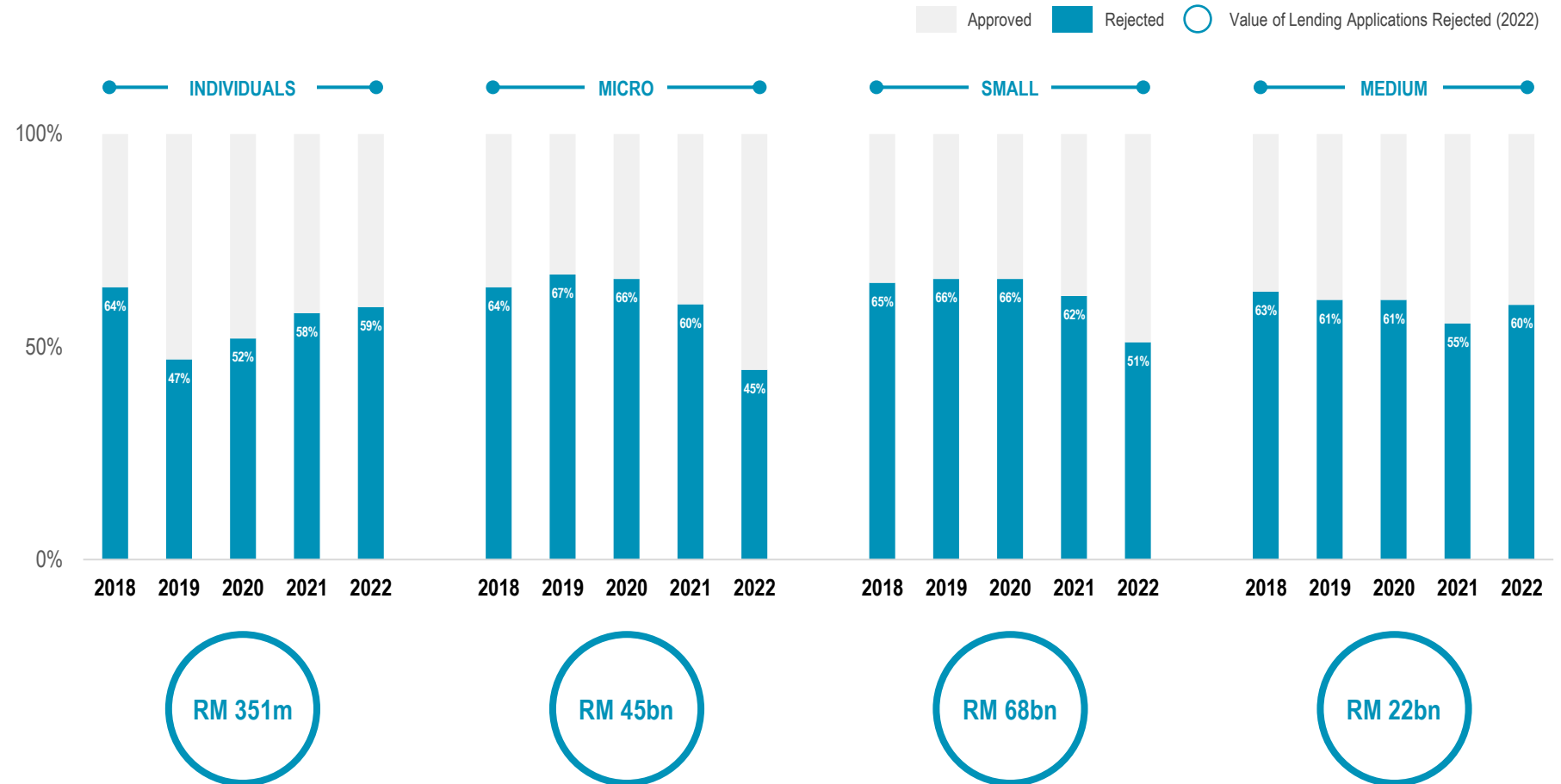
For instance, in Malaysia, the rejection rates for individual business owners and MSMEs ranged from 45% to 60% between 2018 and 2022.

This trend highlights the challenges faced by MSMEs in accessing credit within the traditional banking system, which can potentially be addressed by digital banks.

As a result, many MSMEs in emerging Asia struggle to get access to credit; the majority of MSME lending applications in Malaysia, for example, were rejected from 2018-22

## Lending Applications by MSME Size

2018-22, %



# MSME PERSPECTIVES: CREDIT GAPS, HK

## Key Takeaway

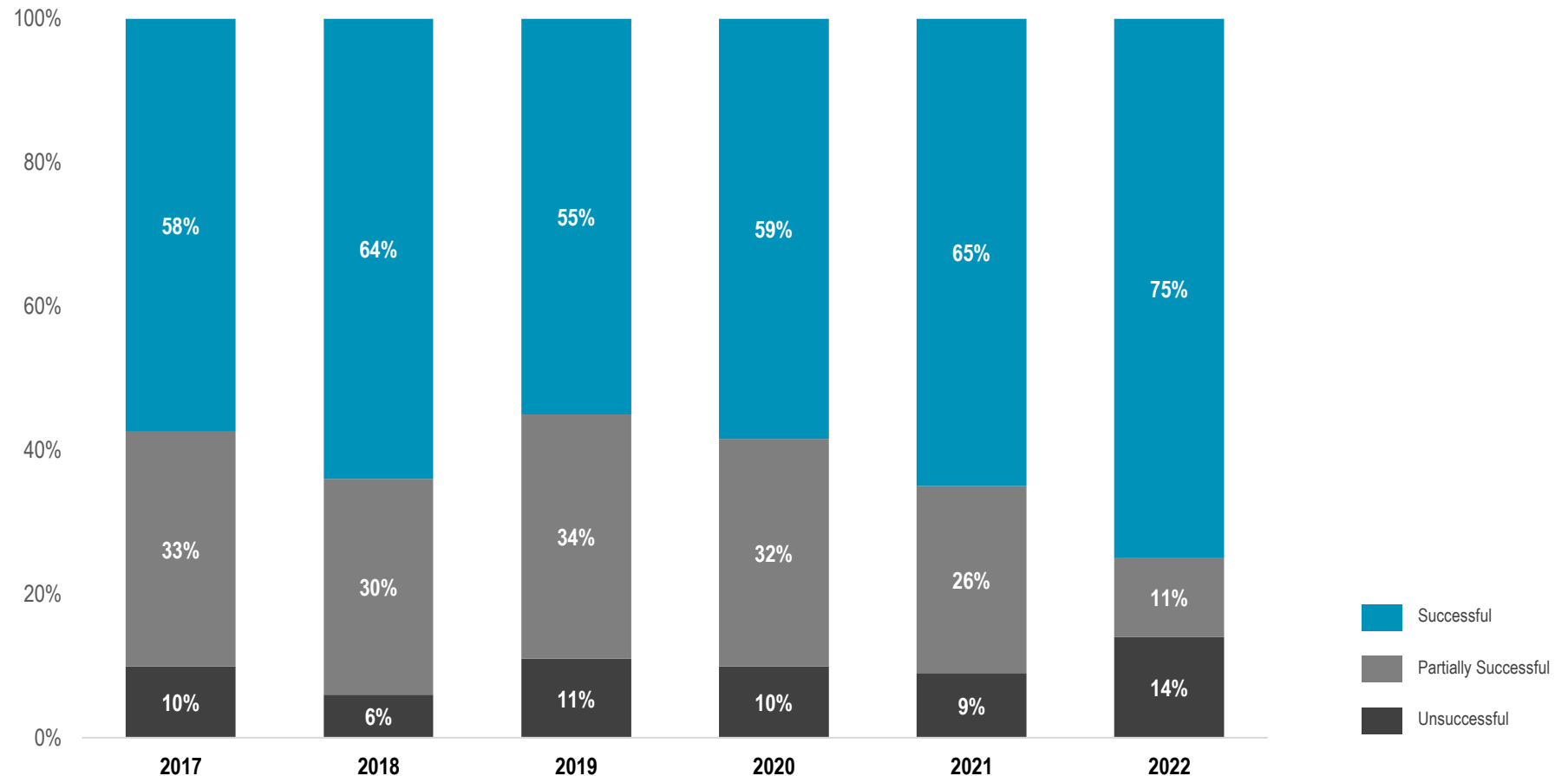
The rejection rates of loan applications for MSMEs in developed markets are comparatively lower than those observed in emerging markets.

However, taking Hong Kong as an example, ~10% of SMEs' credit applications from 2017-22 were outright rejected by banks, with another ~30% of applications being only partially approved. More importantly, there is no clear trend indicating that the funding situation for SMEs in the city has been improving over time.

The situation isn't meaningfully different in developed Asia; in Hong Kong, ~40% of MSME credit applications were rejected or only partially approved from 2017-22

## Bank SME Credit Application Success Rate

%, 2017-22, Average



Note: quarterly data has been annualised

Source: HKMA, Hong Kong Productivity Council, Quinlan & Associates estimates



SECTION 2

---

## ENTER THE DIGITAL BANKS

QUINLAN  
& ASSOCIATES

# APAC DIGITAL BANK LICENSING OVERVIEW

## Key Takeaways

To meet the emerging demands and digital preferences of customers, various APAC markets have either launch or are in the process of launching digital-native banks.

This typically involves a stage-by-stage approach: from industry consultation, to licence application, preparation, launch, and expansion.

Vietnam and Thailand are currently in the earliest stages of this process, with virtual banks in Hong Kong, South Korea, Japan, and Mainland China all having already been in operation for a number of years.

To address the shortfalls of traditional banks and capitalise on consumer demands and digital trends, many markets have either launched or are planning to launch digital banks

## Market Development

APAC Digital Banks



\*2 full banks and 2 wholesale banks, \*\*Jurisdictions that have virtual banks licensed under the existing Banking Act (no separate virtual bank licensing frameworks) with regulations stating that they must be backed by an incumbent bank

Source: The Edge Markets, financial regulator websites, Quinlan & Associates analysis

# APAC DIGITAL BANK SNAPSHOT

## Key Takeaways

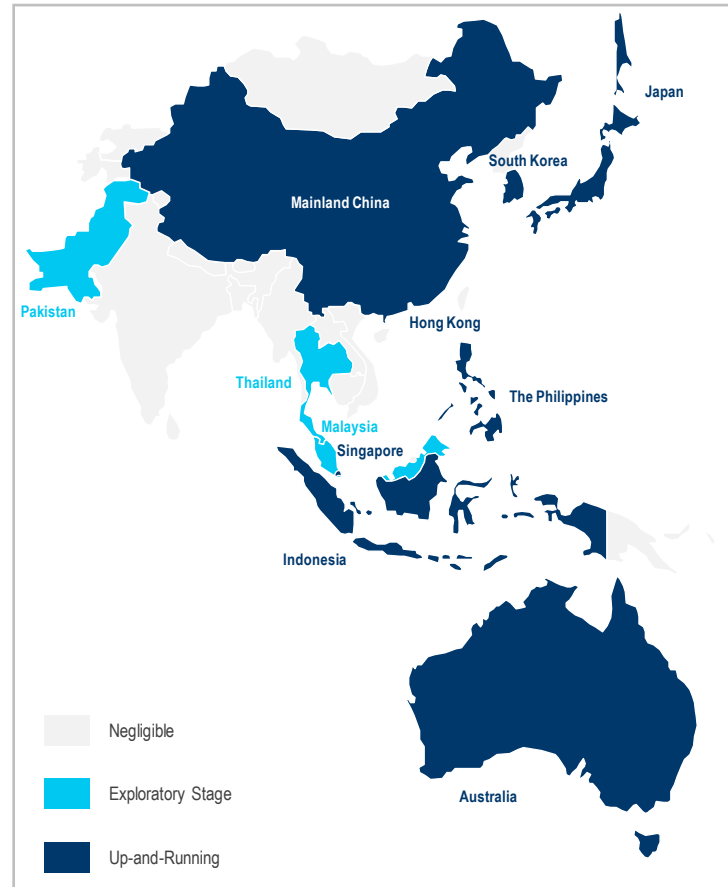
More than 40 digital banks have been launched and are currently operating in APAC, which include:

- **Mainland China:** WeBank, XWBank, MYBank, aiBank (Baixin), Yillion Bank, Suning Bank
- **Singapore:** trust Bank, GXS Bank, Green Link Digital Bank, ANEXT Bank, MariBank
- **Japan:** Jibun Bank, Kyash, Minna Bank, PayPay Bank, Rakuten Bank, Seven Bank, Sony Bank
- **Australia:** Judo Bank
- **South Korea:** Kbank, KakaoBank, toss
- **Indonesia:** Jenuis, Aladin, digibank, MotionBanking, TMRW, Bank Jago
- **Hong Kong:** ZA Bank, Airstar Bank, WeLab Bank, livi Bank, Mox Bank, Ant Bank, Fusion Bank, PAObank
- **The Philippines:** Tonik Bank, Maya Bank, UnionDigital Bank, GoTyme Bank, Overseas Filipino Bank, UNO Digital Bank

At present, over 40 digital-native banks have been launched in APAC (excluding offshore players, e.g. Revolut), though some have already shuttered their operations (e.g. Volt)

## Digital Banking Progress

APAC



Note: \*Xinja and Volt shut down their operations in 2020 and 2022 respectively  
Source: various digital banks, Quinlan & Associates analysis

## Competitive Landscape

APAC Digital Banks

### MAINLAND CHINA



### JAPAN



### SOUTH KOREA



### HONG KONG



### SINGAPORE



### AUSTRALIA



### INDONESIA



### THE PHILIPPINES



# IMPROVING USER EXPERIENCE

## Key Takeaways

Digital banks in the region are continuously striving to improve the customer experience and address the pain points of traditional banks by adopting a range of cutting-edge technologies across the end-to-end customer value chain.

When it comes to customer awareness, digital banks are leveraging social media platforms, targeted ads, and SEO/ASO to increase their reach and attract potential customers. OCR, facial recognition, and data verification have also been adopted to streamline the onboarding process.

Digital banks also use gamification, budgeting tools, and social connectivity features to create a more interactive and personalised experience for customers, while product and service offerings are improved through credit scoring solutions, robo-advisory, and payment rewards.

Chatbots, live chat tools, and 24x7 hotlines are in place to ensure that customers receive prompt and efficient service. Finally, technologies such as cloud, cybersecurity, and fraud detection are being leveraged to better manage and protect customer data.

# The digital banks have brought to the table cutting-edge technologies across the customer value chain, from remote onboarding to cloud-based data management

## Technology Usage Across the Value Chain

APAC Digital Banks, Select Examples



Source: Marketing Interactive, Cogney, Accenture, various digital banks, Quinlan & Associates analysis



# CUSTOMER AWARENESS & ACQUISITION

## Key Takeaways

Taking Hong Kong as an example, digital banks are proactively raising customer awareness by employing various digital-first marketing strategies.

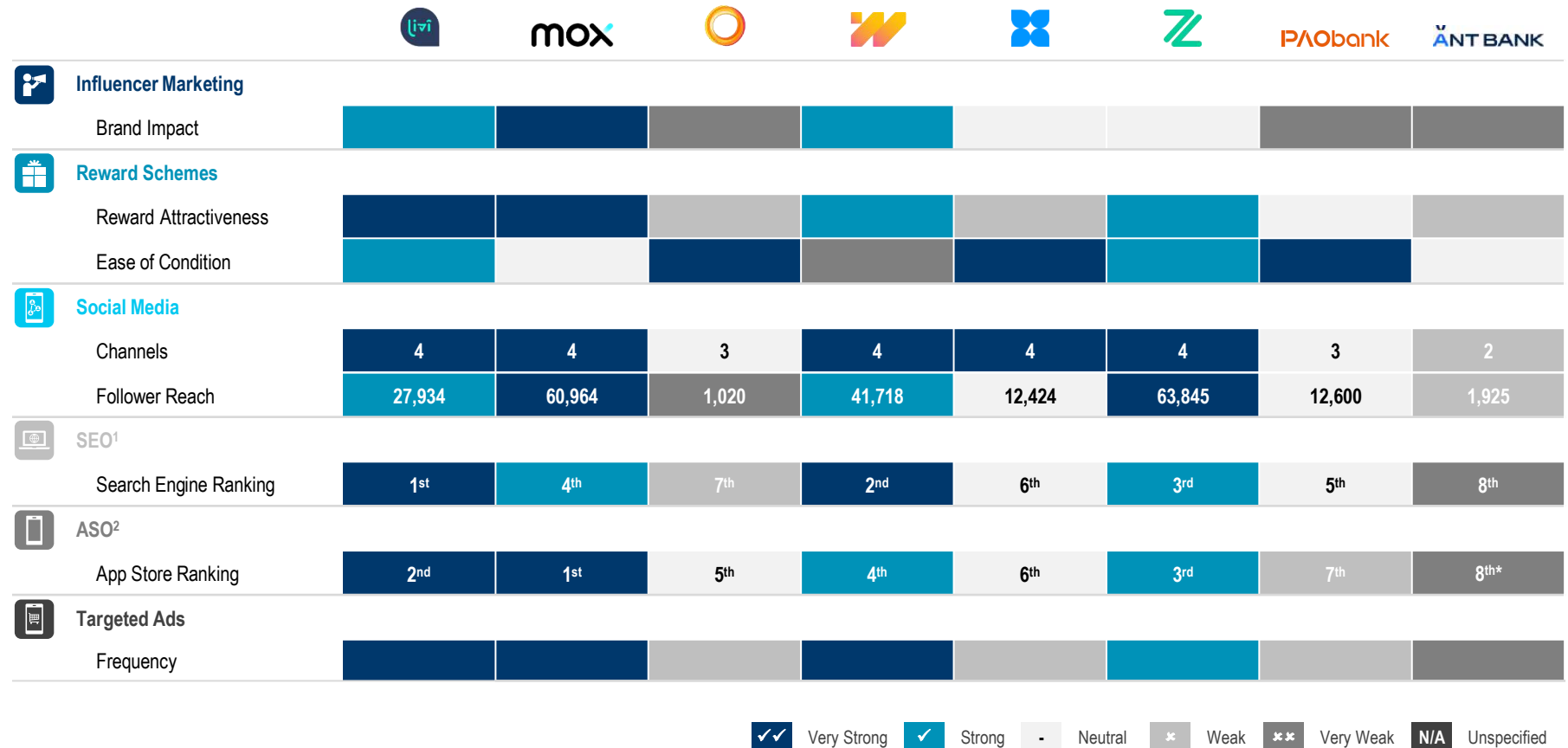
These include collaborating with local influencers, offering attractive joining rewards, maintaining an active presence on all major social media platforms, conducting search engine and app store optimisation, and frequently posting targeted ads.

These efforts have proven extremely valuable in allowing Hong Kong's virtual banks to acquire a sizeable customer base since their launch in 2020.

Taking Hong Kong's virtual banks as an example, many are actively adopting a variety of digital-first customer acquisition initiatives, including influencers, targeted ads, and ASO

## Customer Acquisition Initiatives (Hong Kong Virtual Banks)

As at May 2023



<sup>1</sup>Search Engine Optimisation ("Hong Kong virtual bank" as the keyword on Google), <sup>2</sup>App Store Optimisation ("bank" as the keyword on Apple App Store Hong Kong) \*Ant Bank has not appeared among the top 100 search results  
Source: various virtual bank websites, Quinlan & Associates analysis

# CUSTOMER ONBOARDING

## Key Takeaways

In terms of customer onboarding, digital banks in Hong Kong are taking steps to simplify and completely digitise the process, implementing advanced technologies such as mobile phone OCR and biometric identification.

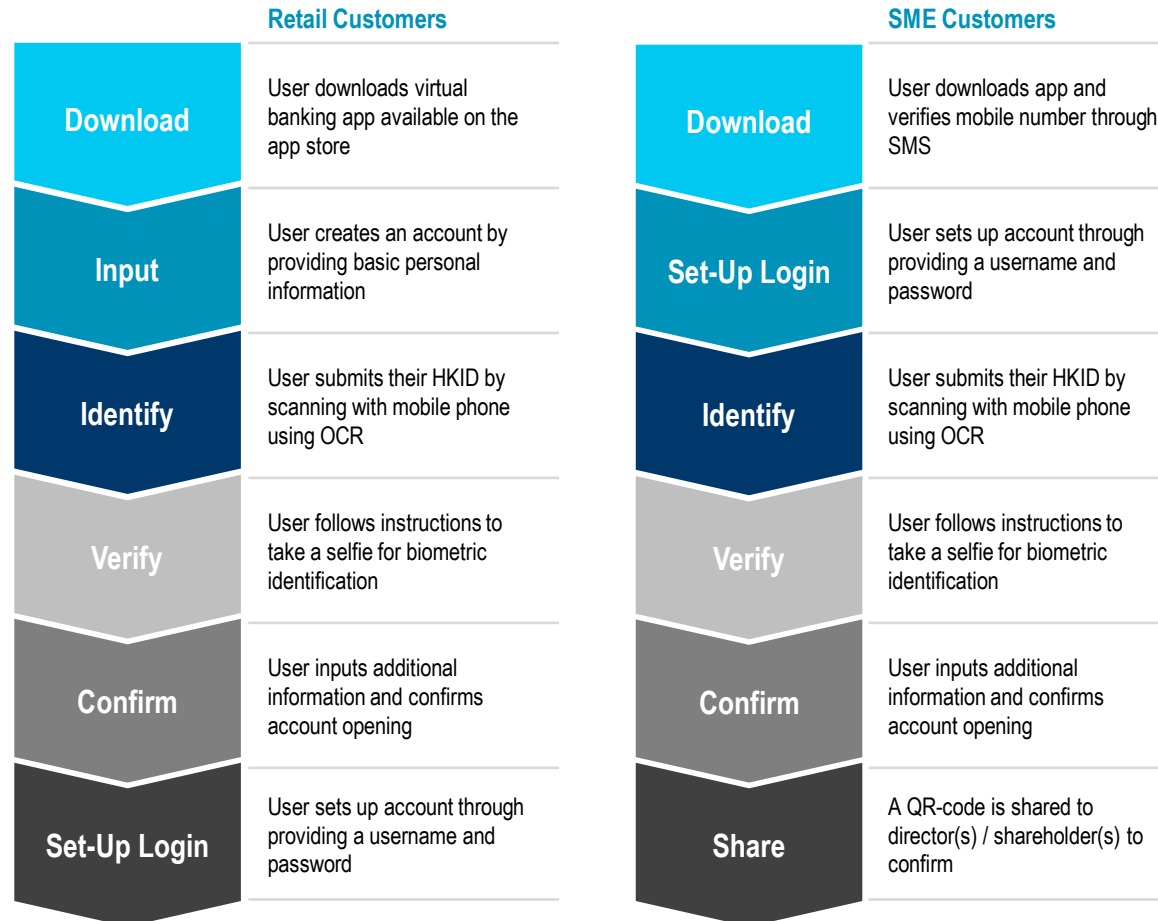
Through mobile phone OCR, customers can simply take a picture of their identity documents, following which the information is automatically extracted and verified.

Biometric identification allows customers to confirm their identity through fingerprint or facial recognition technology.

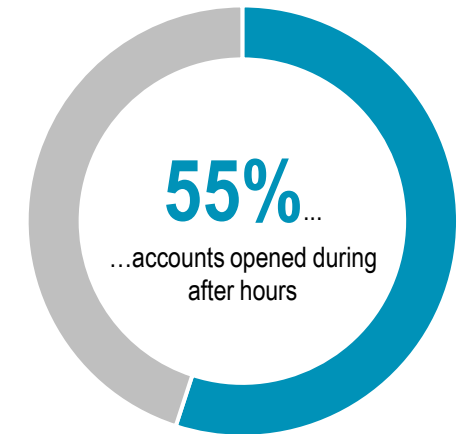
Such technologies have eliminated the need for physical branch visits, saving customers considerable time and effort. More importantly, Hong Kong's virtual banks are able to provide 24/7 onboarding services that can take as little as two minutes to complete.

Hong Kong's virtual banks have streamlined the customer onboarding experience by completely digitalising it, enabling 24/7 onboarding in as little as 2 minutes

## Customer Onboarding Digital Account Opening



## Key Statistics Estimated Statistics



**2 Minutes 3 Seconds  
Fastest Onboarding Time**

# CUSTOMER ENGAGEMENT (1/2)

## Key Takeaways

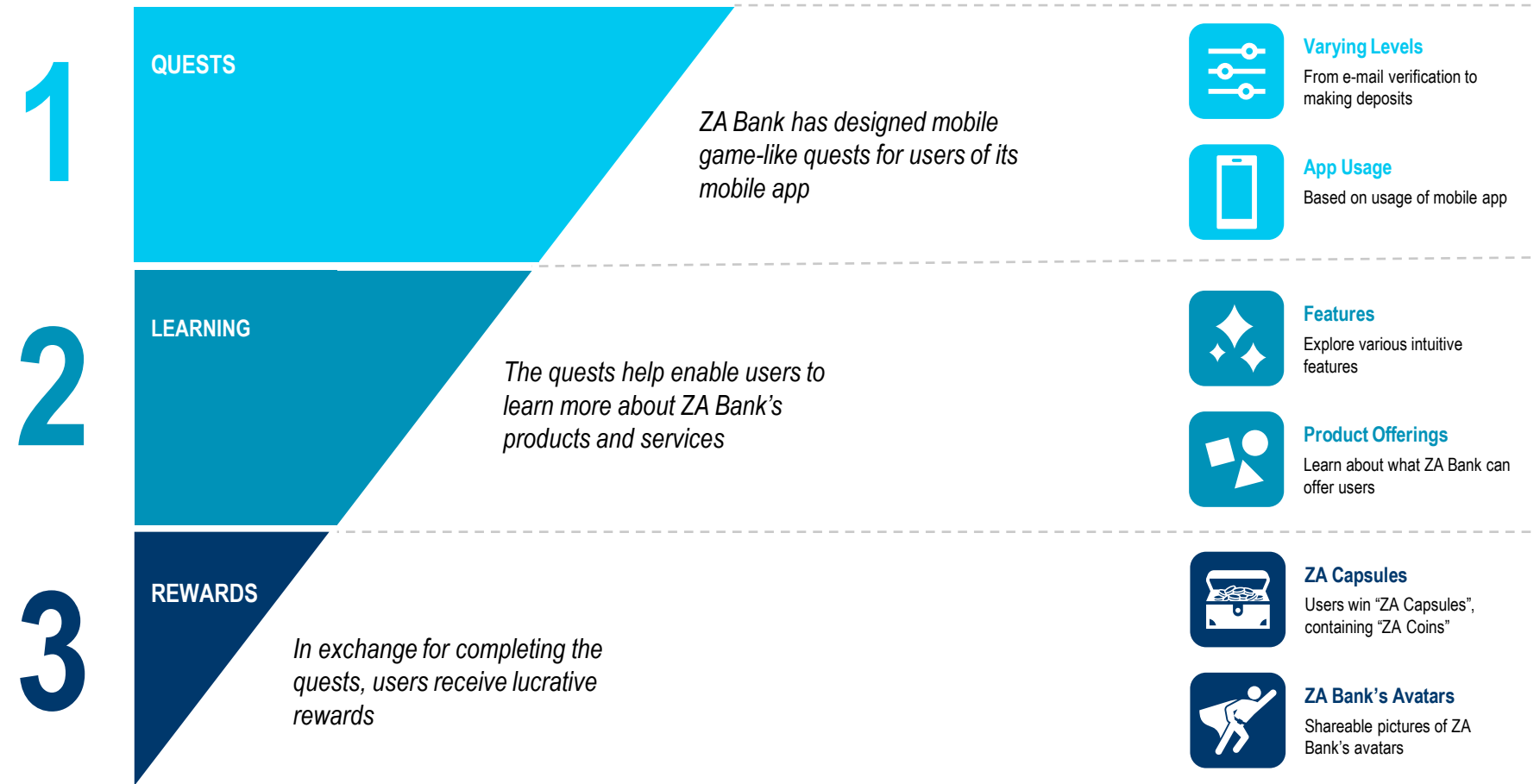
ZA Bank, one of the top digital banks in Hong Kong by customer count, has created a gamification campaign called “ZA Quest” to better engage its customers.

Through the campaign, customers can learn more about the bank’s product and service offerings and discover different features within the bank’s app.

By completing various quests, users can earn rewards, such as “ZA coins,” which can be used for cashbacks and creating avatars, aimed at enhancing the customer experience and encouraging customers to explore more of what ZA Bank has to offer.

## ZA Bank has launched a gamification campaign, titled “ZA Quest”, to encourage users to explore their various products and services, in exchange for lucrative rewards

### Gamification ZA Quest



# CUSTOMER ENGAGEMENT (2/2)

## Key Takeaways

Another leading digital bank in Hong Kong, Mox Bank, has implemented granular budgeting tools to boost customer engagement.

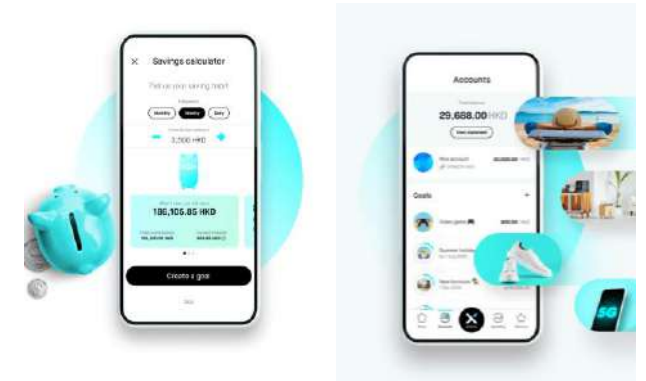
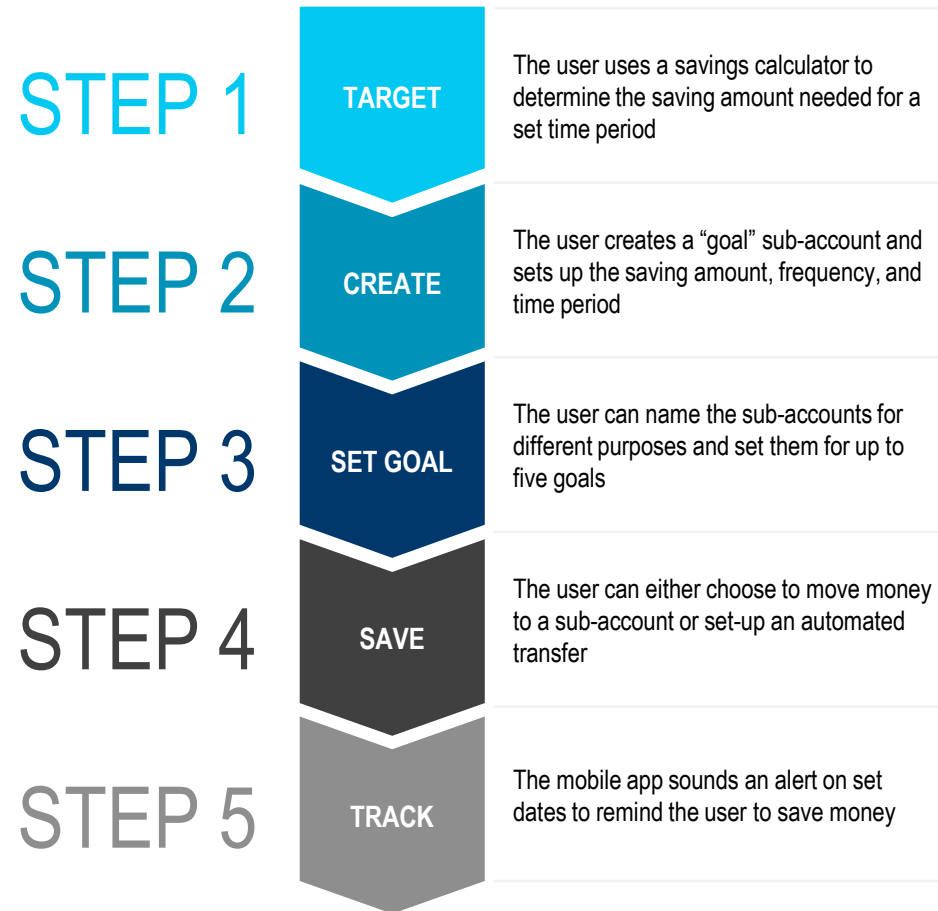
Mox's budgeting tool, called "Generation Mox," enables users to create a sub-account called "goal" and specify a saving amount, frequency, and time period for automated transfers. The app then sends reminders on set dates to prompt users to save money.

This way, Mox is not only enhancing customer engagement, but also helping customers to more effectively achieve their savings goals.

# Mox Bank offers granular budgeting tools to its customers, christened "Generation Mox", who have set a collective savings target of HKD 660 billion

## Budgeting Tools

Mox Bank



### Top 5 Savings Goals



# HKD 660 Billion

Collective Savings Goal Target of Customers

# RETAIL OFFERINGS (1/2) – EVOLUTIONARY PATH

## Key Takeaways

As digital banks continue to evolve, they are expanding their range of retail products and services to become a comprehensive one-stop platform and increase customer stickiness.

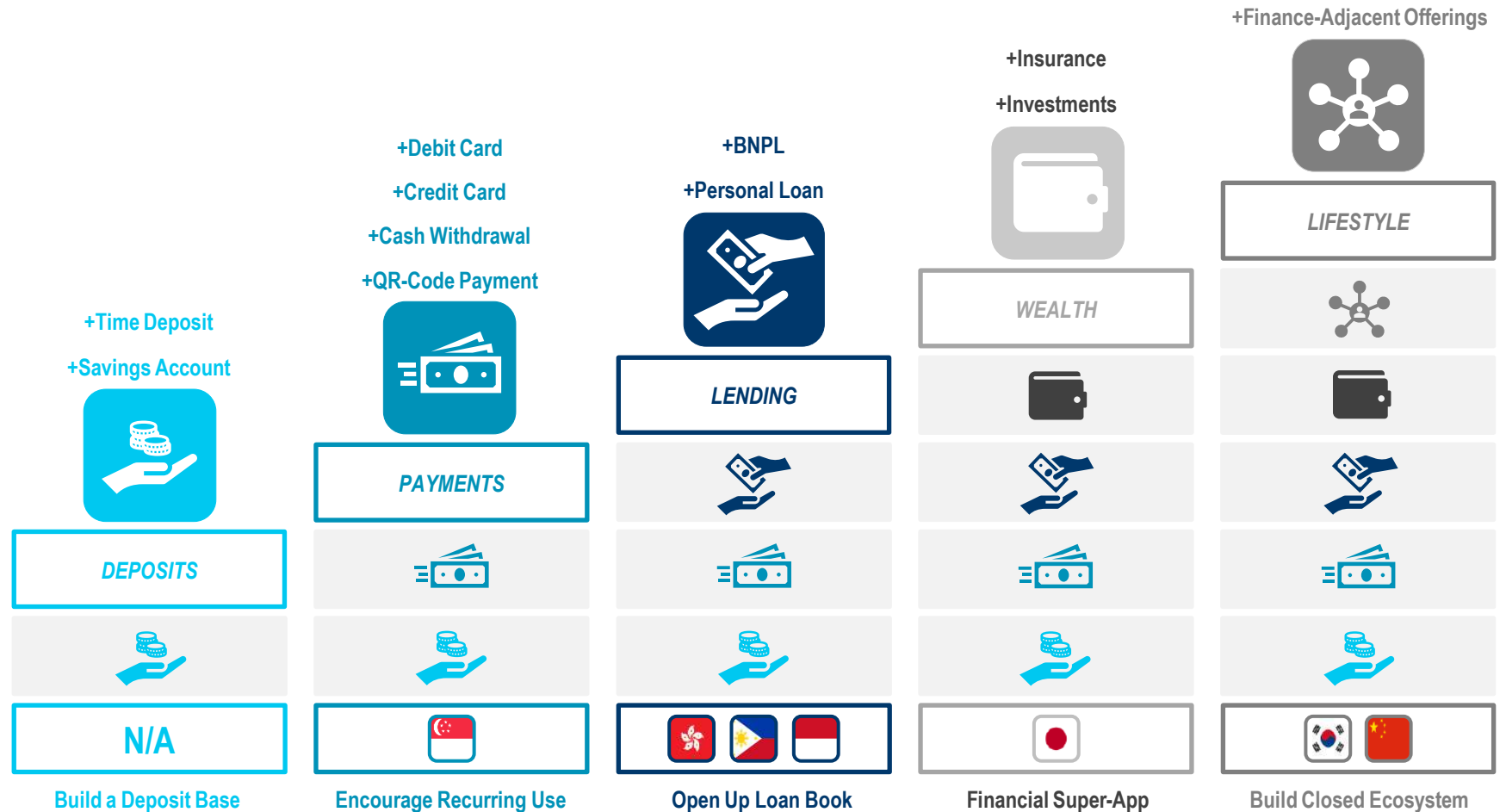
This typically follows a buildout process that follows various sequenced stages, including:

1. Deposit services, including time deposit and savings accounts;
2. Payment services, such as debit/credit cards, cash withdrawals, and QR code payments;
3. Lending services, including personal loans and buy now, pay later (“BNPL”) options;
4. Wealth management services, such as insurance and investments;
5. Lifestyle offerings related to finance.

Digital banks are gradually building-up their suite of retail product / service offerings to become a one-stop platform, with progress being largely dependent on time in the market

## Products / Services Roll-out

Evolutionary Path



# RETAIL OFFERINGS (2/2) – HK CASE STUDY

## Key Takeaways

Taking a deep dive into the digital banking landscape of Hong Kong, a majority of the players have already introduced deposit and lending products.

Other firms, such as livi, ZA, Mox, and WeLab, are now offering additional financial services such as insurance and wealth products, including BNPL, life insurance, and wealth / investment management solutions.

Taking Hong Kong as an example, most players have launched lending products, with some now venturing into the wealth management space to better monetise their customers

## Retail Products / Services

Hong Kong

		RETAIL FOCUSED				RETAIL SKEWED		SME SKEWED	
		mox	ZA	W	WELAB	liv	Z	PAObank	ANT BANK
DEPOSIT	Savings Account	✓	✓	✓	✓	✓	✓	✓	✓
	Time Deposit	✓	✓	✓	✓	✓	✓	✓	✗
PAYMENT	Online	✓	✓	✓	✓	✓	✓	✓	✓
	Offline	✓	✗	✓	✓	✓	✓	✓	✗
	Debit Card	✓	✗	✓	✗	✓	✓	✗	✗
	Credit Card	✓	✗	✗	✗	✗	✗	✗	✗
LENDING	Personal Loan	✓	✓	✓	✓	✓	✓	✗	✓
	PLGS <sup>1</sup>	✗	✗	✗	✗	✗	✓	✗	✗
	Debt Consolidation	✓	✗	✓	✓	✓	✓	✗	✗
	BNPL <sup>2</sup>	✓	✓	✓	✗	✓	✗	✗	✓
INSURANCE	Life Insurance	-	✗	-	✗	✓	✓	✗	✗
	Health Insurance	-	✗	-	✗	✗	✓	✗	✗
	Other Insurance	-	✗	-	✗	✓	✓	✗	✗
WEALTH	Discretionary Inv.	✗	✗	✓	✗	✗	✓**	✗	✗
	Non-Discretionary Inv.	✗	✓	✗	✗	✗	✓	✗	✗
OTHERS	Foreign Exchange	✓	✓	✓	✓	✓	✓	✗	✗
	Lifestyle Offerings	✓	✓	✓	✓	✓	✓	✗	✓

✓ Offered
- In Progress
✗ Not Offered
N/A Unspecified

\*Under ZA Bill Master, users can settle all credit card statements in one go with flexible repayment period of 72 months (vs. 30 days), and pay a small handling fee (vs. interest), \*\*ZA Bank's IPOGo is a discretionary investment service, executing trades on behalf of users <sup>1</sup>Personal Loan Guarantee Scheme, <sup>2</sup>Buy Now Pay Later

Source: various virtual bank websites, Quinlan & Associates analysis

✓ Offered
- In Progress
✗ Not Offered
N/A Unspecified

# MSME OFFERINGS (1/2) – EVOLUTIONARY PATH

## Key Takeaways

Several APAC digital banks are also broadening their offerings for MSMEs in order to become a well-rounded platform.

However, since the majority of players in the region primarily cater to retail customers, the development of MSME-focused products and services has been comparatively slower.

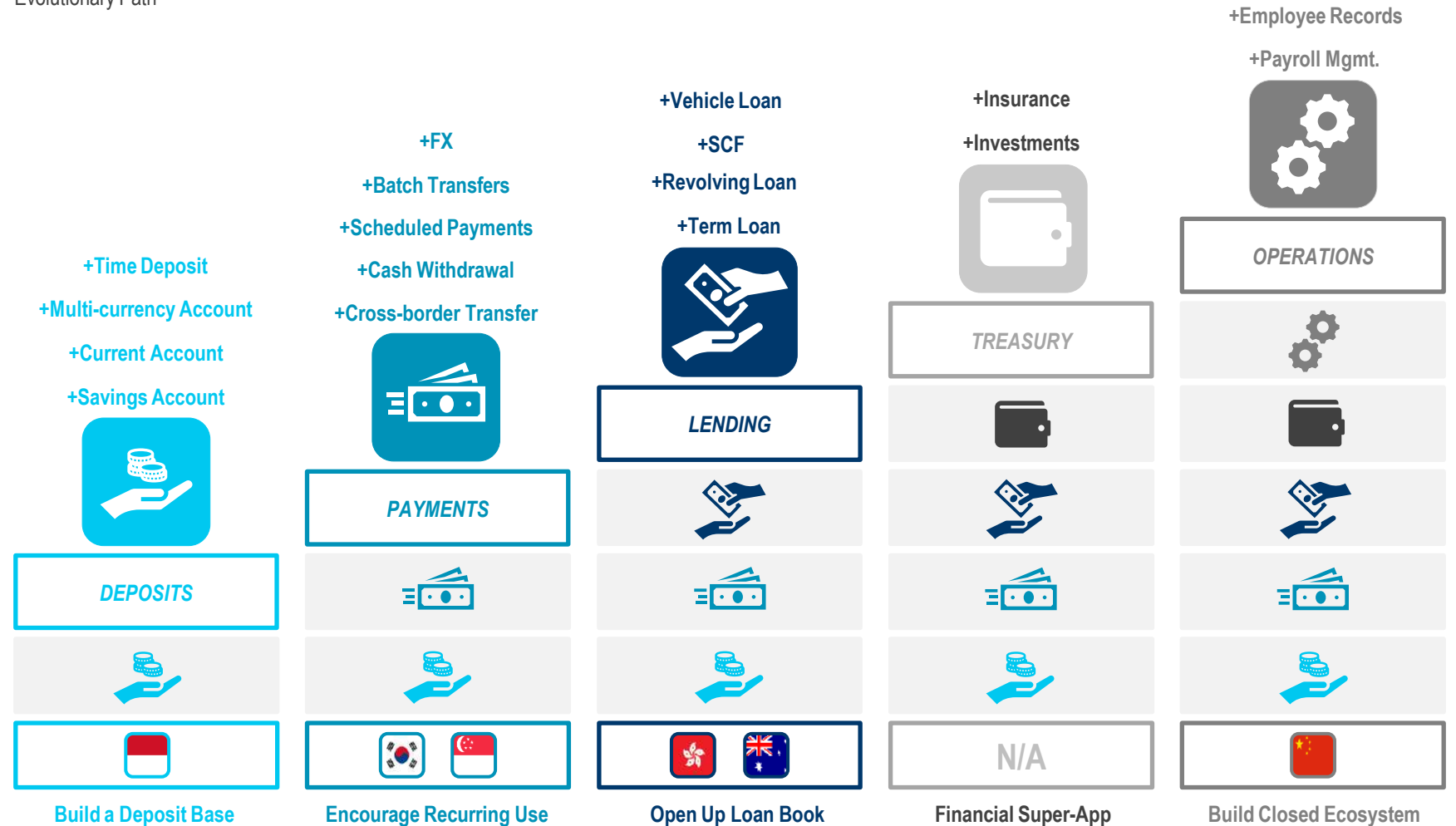
A typical rollout journey includes:

1. Deposit services, including time deposit, multi-currency accounts, current accounts, and savings accounts;
2. Payment services, such as FX, batch transfers, scheduled payments, cash withdrawals, and cross-border transfers;
3. Lending services, including vehicle loans, SCF, revolving loans, and term loans;
4. Treasury services, such as insurance and investments;
5. Operations offerings, including employee records and payroll management.

Given that most of the digital banks in APAC are retail-focused, progress on the MSME front has been comparatively slower

## Products / Services Roll-out

Evolutionary Path



# MSME OFFERINGS (2/2) – HK CASE STUDY (1/2)

## Key Takeaways

Despite the vast number of SMEs in Hong Kong (i.e. 340,000), many of these businesses still struggle to access low-cost funding options.

Beyond offering basic deposit and payment services, most virtual banks in Hong Kong are prioritising the expansion of their lending capacity and product offerings.

For example, both ZA Bank and PAObank not only offer instalment loans, but also provide their SME customers access to the government's SME Financing Guarantee Scheme.

By allowing SMEs to apply through their bank accounts, the application process is made much more convenient for business owners.

To address persistent SME funding gaps, most digital banks in the region remain focused on enhancing their core lending proposition, including those in Hong Kong

## MSME Products / Services

Hong Kong

✓ Offered  
 - In Progress  
 ✗ Not Offered  
 N/A Unspecified

		RETAIL FOCUSED				RETAIL SKEWED		SME SKEWED	
		mox						PAObank	ANT BANK***
DEPOSIT	Business Account	✗	✗	✗	✗	-**	✓	✓	✓
	Savings Account	✗	✗	✗	✗	✗	✓	✓	✓
	Time Deposit	✗	✗	✗	✗	✗	✓	✗	✗
PAYMENT	Domestic Transfer	✗	✗	✗	✗	✗	✓	✓	✓
	Cross-Border Transfer	✗	✗	✗	✗	✗	✓	✓	N/A
GENERAL LENDING	Instalment Loan	✗	✗	✗	✗	✗	✓	✓	✗
	100% SFGS <sup>1</sup>	✗	✗	✗	✗	✗	✗	✗	✗
	90% SFGS	✗	✗	✗	✗	✗	✓	✓	✗
	80% SFGS	✗	✗	✗	✗	✗	✓	✓	✗
	Revolving Loan	✗	✗	✗	✗	✗	✓	✗	✓
	Overdraft Facility	✗	✗	✗	✗	✗	✗	✗	✗
NICHE LENDING	Franchise Financing	✗	✗	✗	✗	✓	✗	✗	✗
	Inventory Financing	✗	✗	✗	✗	✗	✗	✗	✗
	SCF <sup>2</sup>	✗	✗	✗	✗	✗	✗	✗	✗

\*launched a pilot trial in 2021 for SME banking services (e.g. account opening, loan product, money transfer, time deposit set-up), but those services have not been officially provided, \*\* issued a press release stating its plan to introduce account opening for SMEs this year, though it is inconclusive whether this service has been launched yet as there is no portal for SMEs to login, \*\*\*Ant Bank is conducting its first trial of business banking services for SMEs with an exclusive invitation code

<sup>1</sup>SME Financing Guarantee Scheme, <sup>2</sup>Supply Chain Financing

Source: various virtual bank websites, Quinlan & Associates analysis



# MSME OFFERINGS (2/2) – HK CASE STUDY (2/2)

## Key Takeaways

In addition to offering a diverse range of retail and SME-focused products and services, digital banks have transformed the traditional lending process through their use of credit algorithms, machine learning, AI technologies, and alternative data, including Hong Kong's WeLab Bank, Fusion Bank, and PAObank.






By leveraging advanced technologies, these banks have significantly reduced documentation and in-person interview requirements, making the lending process more streamlined, convenient, and accessible for both small businesses and consumers.

Hong Kong's virtual bank customers can now apply for loans completely online, with minimal paperwork, resulting in faster turnaround times and a more efficient lending experience.

## Hong Kong's virtual banks have revolutionised the lending processes by vastly reducing documentation requirements via their credit scoring algorithms and use of alternative data

### Credit Scoring (Hong Kong Virtual Banks)

Retail and Commercial Loans

	 WeLab Bank	 Fusion Bank	 ZA Bank	 Airstar Bank	 PAOB
<b>Data Analytics</b>	✓	✓	✓	✓	✓
<b>M.L.<sup>1</sup> / A.I.</b>	✓	-	-	-	-
<b>Traditional Data</b>	✓	✓	✓	✓	✓
<b>Alternative Data</b>	✓	✓	-	-	✓
<b>Description</b>	WeLab Bank utilises conventional linear regression as well as machine learning models	Fusion Bank uses big data analytics and behavioural assessments to expedite the process	ZA bank assess retail loan applications based on user's monthly salary data and credit reports	Airstar Bank relies on SAS analytics solutions to extract, map, and load integrated datasets	PAOB has adopted "alternative credit scoring", utilising data like import and export volume, etc.
<b>Impact</b>	<i>Average loan tenor of 18 to 24 months, with an average ticket size between HKD 150,000 to 200,000</i>	<i>Fusion Bank is launching a personal loan of HKD 1,000 to HKD 250,000 with a 5 to 20 month tenor</i>	<i>ZA Bank has adopted a 30-minute pledge, paying a HKD 10 penalty for every minute of overtime up to HKD 500</i>	<i>Airstar Bank has launched a debt consolidation loan that carries a larger average ticket size</i>	<i>PAOB has a gross and net interest margin of 9.3% and 8.3% respectively, with a 14.5% LDR<sup>2</sup></i>

✓ Applicable
 - Unspecified
 ✗ Inapplicable

<sup>1</sup>Machine Learning, <sup>2</sup>Loan-to-Deposit Ratio

Source: various virtual bank websites, Quinlan & Associates analysis

# FEE MODELS

## Key Takeaways

APAC digital banks adopt a transaction-based fee structure, whereby customers are charged based on the frequency and/or volume of the transactions.

This differs from the subscription fee models used by some of the major players digital banks in the West, in which customers pay a fixed fee based on their selected subscription plan.



With a transaction-based model, digital banks are able to offer modularised service offerings that align with customers' specific demands. On the other hand, subscription-based models provide recurring revenue for digital banks and eliminate the need to compete over the pricing of individual offerings.

It remains to be seen whether any of the digital banks in APAC will explore the subscription-based pricing models in the coming years.

Unlike a number of virtual banks in the West, who monetise their customers via subscription plans, APAC digital banks employ a transaction-based fee structure

## Fee Models

Transactions-based and subscription plans

	TRANSACTION-BASED	SUBSCRIPTION-BASED
DESCRIPTION	Users are charged a fee based on their frequency of usage / transactions	Users pay a regular fixed fee, based on the subscription plan selected by them
VALUE PROPOSITION	Modularised offerings can be provided to users based on their needs, with low maintenance costs	Recurring revenue can be generated, without competing over pricing of individual offerings
EXAMPLE DIGITAL BANKS		
RECURRING NATURE	✗	✓
FREEMIUM OPTION	✗	✓
PRICING COMPETITION	✗	✓
CUSTOMER STICKINESS	✗	✓
MODULARISED OFFERINGS	✓	✗
MAINTENANCE COSTS	✓	✗

APAC digitals banks are adopting transaction-based fee models

Many of the major European digital banks are actively adopting subscription-based fee models

# CUSTOMER MAINTENANCE

## Key Takeaways

Digital banks utilise a range of tools for the maintenance and servicing of their customers, replacing the need for physical branches that are common in traditional banks.

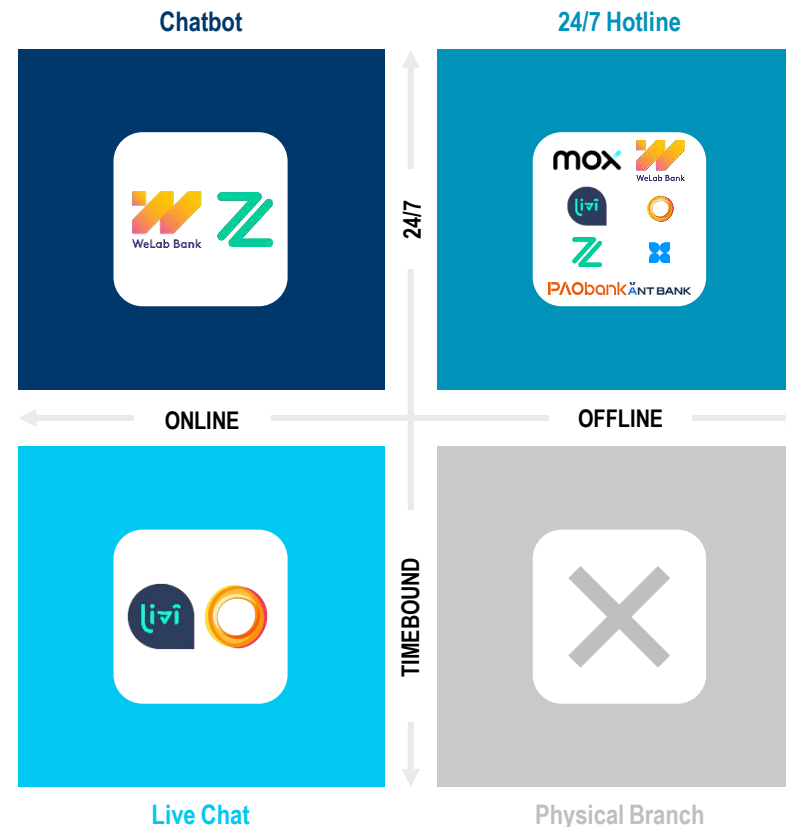
These tools include a 24/7 hotline, which is provided by all virtual banks in Hong Kong, ensuring round-the-clock support for customers through the use of both onshore and offshore call centres.

Leveraging AI and natural language processing, chatbots are also being used to provide automated and personalised responses to customer queries, with some banks utilising live chat functionality through in-app messaging tools, connecting customers with service representatives in real time.

Services like chatbots and live chat tools give digital banks distinct advantages over the competition, given their ability to engage customers over changes in time and scale

## Maintenance and Servicing (Hong Kong Virtual Banks)

Chatbot, Live Chat, 24/7 Hotline, and Physical Branch



- Chatbot**  
 WeLab Bank and ZA Bank's chatbots leverage A.I., NLP<sup>1</sup> for automation and personalisation
- 24 / 7 Hotline**  
 Onshore and offshore call centres for ensuring 24/7 support for customers
- Live Chat**  
 Leverage in-app messaging tools to connect customer service representatives and customers
- Physical Branch**  
 Virtual Banks are mandated to remain branchless, excluding office space

<sup>1</sup>Natural Language Processing

Source: various virtual banks websites and disclosures, Quinlan & Associates analysis

# DATA MANAGEMENT

## Key Takeaways

Many of Hong Kong's virtual banks are relying on various types of cloud technology, with Mox Bank, WeLab Bank, and Ant Bank all having adopted public clouds,

By utilising cloud services, digital banks can improve their data collection and storage capabilities, streamline data processing, and provide advanced security measures to protect sensitive information. Cloud has also proven very effectively in scaling – and expediting – these banks' product development efforts.

Public cloud technology provides a more cost-effective solution for data management than traditional data centres, which require a significant investment in physical infrastructure and maintenance.

# Hong Kong's virtual banks are utilising cloud technology, including public clouds, in order to better collect, store, process, and protect their customer data

## Cloud Technology (Hong Kong Virtual Banks)

Private, Hybrid, and Public

	PRIVATE CLOUD	HYBRID CLOUD	PUBLIC CLOUD	
				<ul style="list-style-type: none"> <li> Cloud System</li> <li> Subject Company</li> <li> Other Companies</li> <li> Private Connection</li> <li> Public Connection</li> </ul>
DEPLOYMENT	<ul style="list-style-type: none"> <li>Cloud infrastructure dedicated to a single company</li> <li>Can be managed by company itself or a third-party vendor</li> </ul>	<ul style="list-style-type: none"> <li>Mix of private and public clouds provided by different vendors</li> <li>Clouds used for different purposes</li> </ul>	<ul style="list-style-type: none"> <li>Cloud infrastructure provided by a third-party vendor</li> <li>Businesses rent the usage of system resources</li> </ul>	DIFFERENTIATION
MOX BANK	×	×	✓	<ul style="list-style-type: none"> <li>1<sup>st</sup> public cloud bank in Asia</li> <li>24/7 cybersecurity centre</li> <li>Multi-cloud approach</li> <li>Uses internal cloud tech*</li> <li>Entirely Hong Kong-based</li> <li>Uses internal cloud tech*</li> <li>Virtual private cloud*</li> <li>Uses internal cloud tech*</li> </ul>
LIVI	×	✓	×	
WELAB BANK	×	×	✓	
FUSION BANK		–		
ZA BANK	✓	×	×	
AIRSTAR BANK		–		
PAOB	✓	×	×	
ANT BANK (HK)	×	×	✓	

Public cloud-based virtual banks Applicable Unspecified Inapplicable

\*Fusion Bank, Airstar Bank, PAOB, and Ant Bank (Hong Kong) utilise a form of cloud technology from their parent company  
Source: Quinlan & Associates analysis

# PARTNERSHIP ECOSYSTEM

## Key Takeaways

Many digital banks have established an extensive partnership ecosystem across the customer value chain.

By collaborating on content marketing, joint incentives, and referral agreements, digital banks can leverage their partners to enhance customer awareness and acquisition.

Moreover, partners can also facilitate product delivery and development processes by co-creating innovative solutions that meet the needs of specific target customers.

Building a robust partnership ecosystem is a vital component of digital banking success, helping to establish strong relationships with customers, partners, and stakeholders.

Digital banks have established an array of partnerships across the customer value chain to drive visibility, customer uptake, and product development / delivery

## Partnership Ecosystem (Hong Kong Virtual Banks)

Nature of Partnership

	mox						PAObank	ANT BANK
Content Marketing	MoneyHero M&CSAATCHISPENCER		StunZ		iProspect Esquire MoneyHero	MoneyHero		
Joint Incentive	now@ Nike amazon Trip.com csl. TAM 香港	TVB 微信支付 WeChat Pay	KMB deliveroo	ROSEWOOD HOTELS & RESORTS	INGRID MILLET kkday KLOOK yuu JFC	八達通 Octopus SHAKE SHACK KLOOK CLINIQUE		kkday adidas HKTVMail UNI QLO 豐源 FORTRESS
Social Branding					FEED 一零八 PROJECT 108	Uber		
Referral Agreements							易易通 EASYSUN eft Pay	Yedpay
Product Delivery	mastercard Jetco G Pay Apple Pay	微信支付 WeChat Pay	mastercard Jetco Apple Pay		mastercard Apple Pay G Pay	VISA Apple Pay G Pay	Jetco	支付宝 ALIPAY
Product Development		TESLA	Allianz Global Investors TESLA		中銀人壽 BOC LIFE carousell	GENERALI FRANKLIN-TEMPLETON Invesco		支付宝 ALIPAY

Note: technology partners and shareholders are not included

Source: virtual bank websites, Quinlan & Associates analysis

# INTEGRATED ECOSYSTEM

## Key Takeaways

For digital banks to create a comprehensive financial solution that meets customers' needs, they must develop a closed and integrated ecosystem that functions as a one-stop-shop financial super app-like platform.

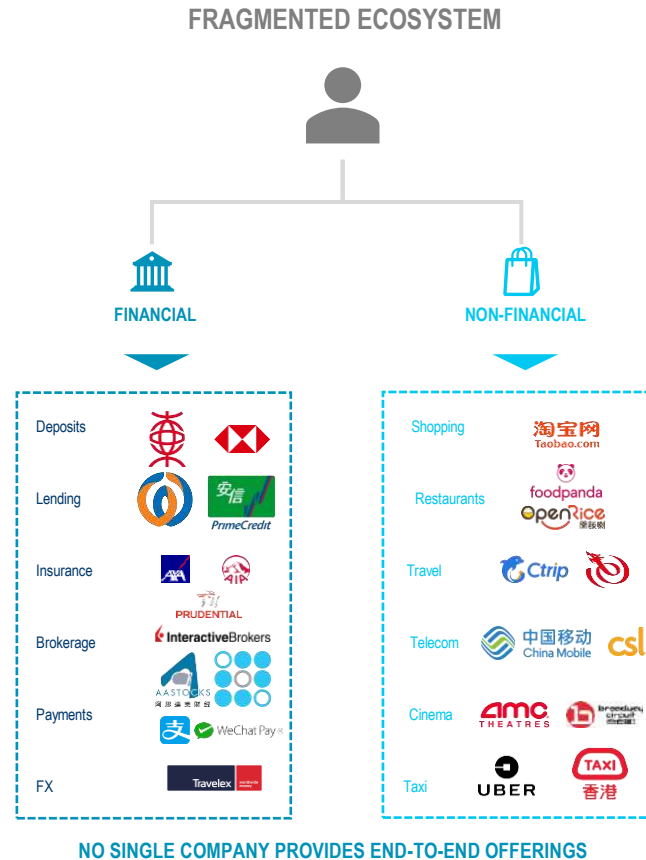
Achieving this requires not only offering traditional financial services like deposits, lending, insurance, brokerage, payments, and FX, but also integrating non-financial offerings such as taxi, cinema, telecom, travel, restaurants, and shopping. By doing so, digital banks can create a holistic offering that caters to customers' needs beyond financial services, ultimately driving customer loyalty.

To create such an ecosystem, digital banks may partner with a variety of non-financial service providers to meet the evolving needs of customers.

More importantly, many players are attempting to build an integrated ecosystem of financial and non-financial offerings to become a one-stop-shop for their customers

## Ecosystem

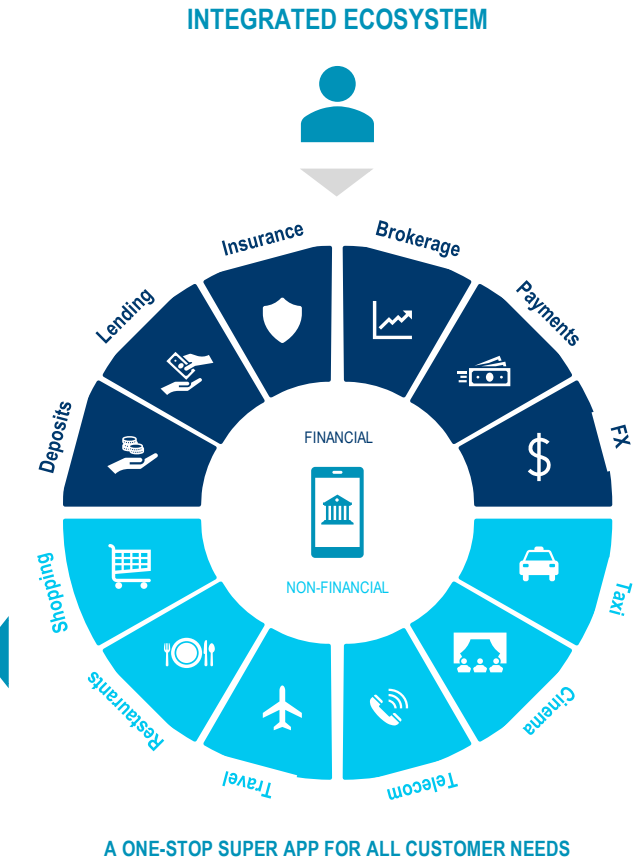
Financial and Non-financial Offerings



- ✗ Poor customer understanding
- ✗ Multiple logins/usernames
- ✗ Numerous passwords
- ✗ Lack of personalisation
- ✗ Lacklustre data integration
- ✗ Revenue leakage
- ✗ Poor cross-selling
- ✗ Low stickiness and loyalty
- ✗ Less diversification

## INTEGRATED ECOSYSTEM

- ✓ Robust customer understanding
- ✓ Single access point
- ✓ Single delivery channel
- ✓ Strong personalisation
- ✓ Favourable data integration
- ✓ Additional revenue streams
- ✓ High cross-selling potential
- ✓ Higher stickiness and loyalty
- ✓ Greater diversification





## SECTION 3

---

# KEY CHALLENGES

# PROFITABILITY (1/2) – OVERVIEW

## Key Takeaways

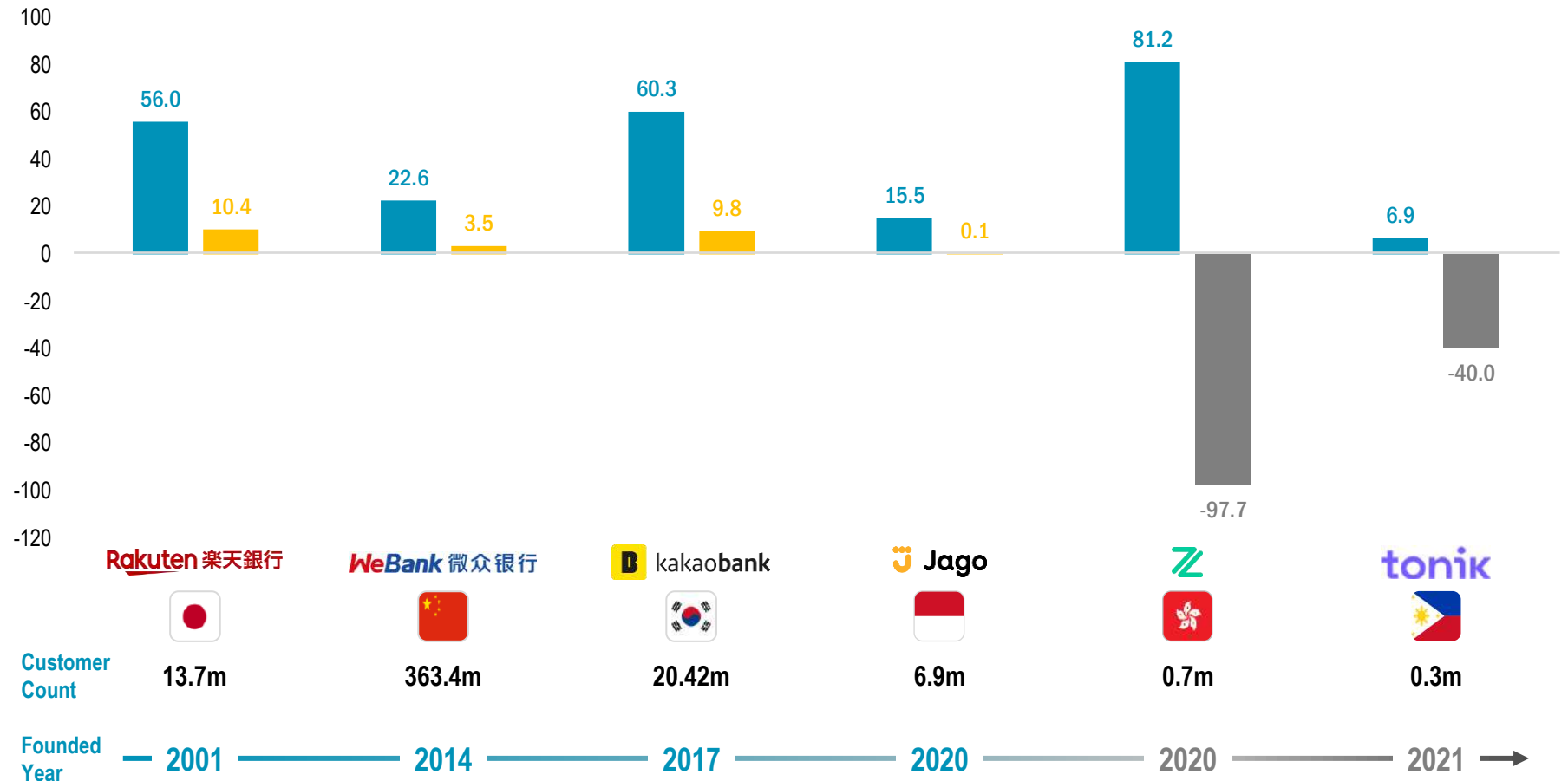
Digital banks in Japan, Mainland China, and South Korea, which were first to enter the market, have established a substantial customer base and are generating healthy profit margins.

However, most other digital banks in the region (including those in both developed and developing markets), especially those focused on the retail banking segment, are struggling to break even.

Digital banks in Japan, Mainland China, and South Korea, which were first to market, are turning healthy profits, with banks in most other APAC markets struggling to break even

## Level of Monetisation

2022, Revenue & Profit per customer (in USD)



Note: select leading digital banks showcased; revenue for tonik is estimated based on the data from the most recent disclosure (March 2022)

Source: various digital bank annual reports / company disclosures, Quinlan & Associates estimates



## PROFITABILITY (2/2) – HK CASE STUDY

### Key Takeaways:

Hong Kong's virtual banks are facing significant challenges in terms of monetisation.

Despite having been in operations since 2020, none of the city's 8 virtual banks have managed to turn a profit, with many incurring substantial losses over the past 3 years.

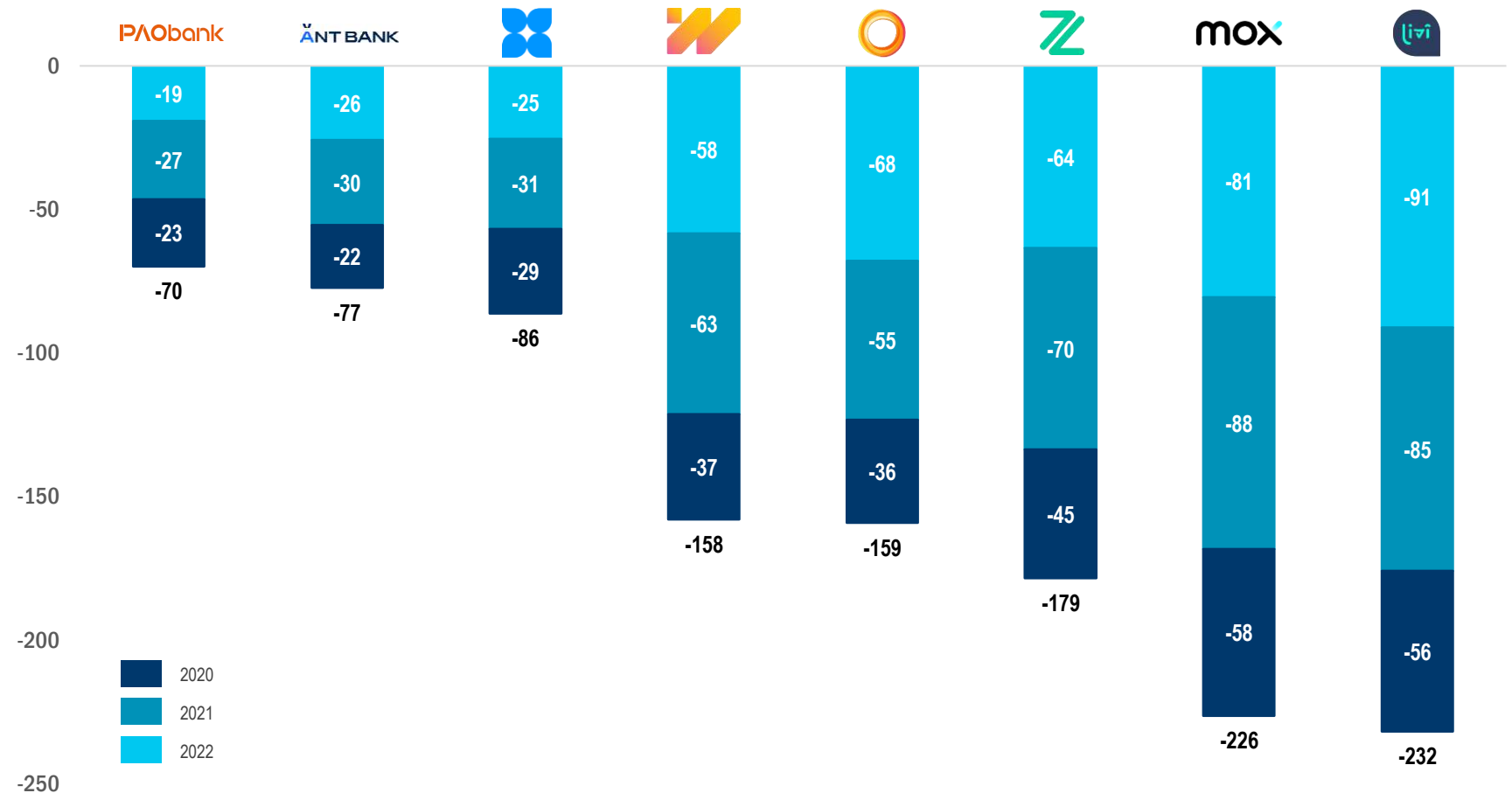
Cumulative losses between 2020-22 range from USD 70 million for PAObank on the low end, to USD 232 million for livi between on the high end.

While some digital banks, including Mox Bank, ZA Bank, WeLab Bank, Airstar, Ant Bank, and PAObank, have managed to reduce their losses slightly in 2022, we believe they are still a few years off establishing a profitable business model.

In the case of Hong Kong, since entering the market in 2020, all virtual banks have been unprofitable, losing an average of USD 148 million per bank between 2020 and 2022

### Losses

2020-2022, USD Million



# EXPENSIVE CUSTOMER ACQUISITION

## Key Takeaways

Digital banks, especially those operating in the retail segment, need to acquire a large customer base to monetise and sustain their growth.

However, customer acquisition costs (“CAC”) have proven to be a significant challenge for many players.

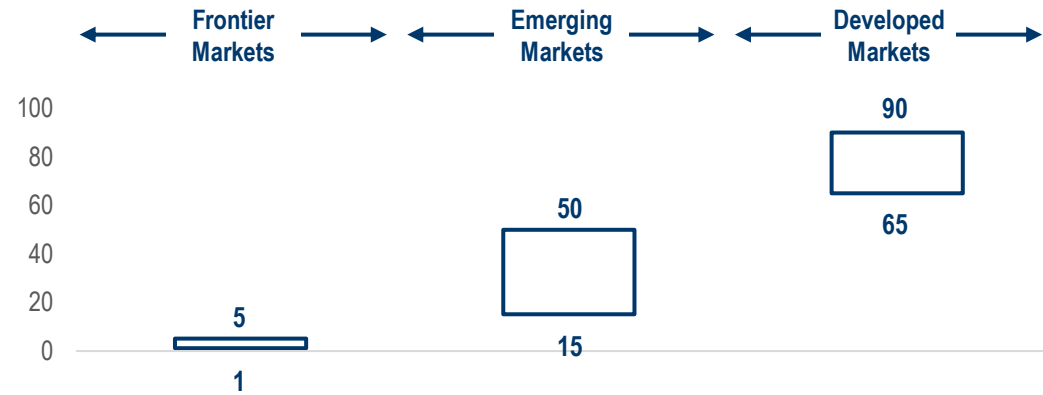
At present, we estimate the average CAC in Hong Kong to range from USD 65 to USD 90, considerably higher than USD 15-50 in emerging markets and USD 1-5 in frontier Asian markets.

Apart from the visible cost of acquisition, there are various hidden costs that must be considered, such as indirect fees and expenses incurred to acquire customers. More importantly, however, are high dormancy rates being faced by many digital banks. For instance, in Hong Kong, where more than half of the total customer base of virtual banks is dormant, the effective cost of acquisition is almost twice the visible cost, on average.

Customer Acquisition Cost (“CAC”) remains a key pain point for many players, especially when taking into consideration high dormancy rates, which has blown out “effective CAC”

## Average Customer Acquisition Cost of Digital Banks

2022E, APAC Retail, USD



VISIBLE CAC

HIDDEN CAC



### Referral / Joining Rewards

Incentive-based rewards handed to new joiners and referrers



### Placement Fees

Fee paid for placing advertisement in the desired channel



### Production Costs

Marketing / advertising campaign costs, outside of agency fees



### Agency Fees

Costs paid out to marketing / advertising agencies for orchestrating campaigns

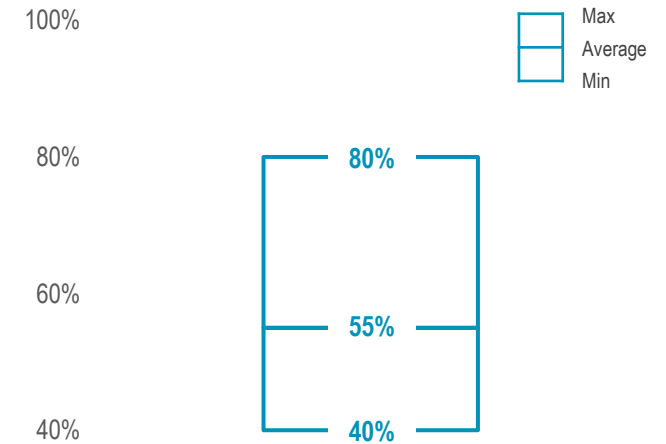


### Staff Costs

Costs related to employee salaries for the marketing / public relations staff

## Dormancy Rate

2022, Hong Kong Digital Banks



On average, 55% of registered users of virtual banks in Hong Kong are inactive (i.e. they do not log on at least 1x per month)

Over half of the total customer base at Hong Kong’s virtual banks are dormant, blowing out “effective CAC” by ~2x, on average

# SMALL DEPOSIT BASE LIMITING MONETISATION

## Key Takeaways

Another major challenge for APAC digital banks is the substantially lower average deposit level per customer compared to traditional banks.

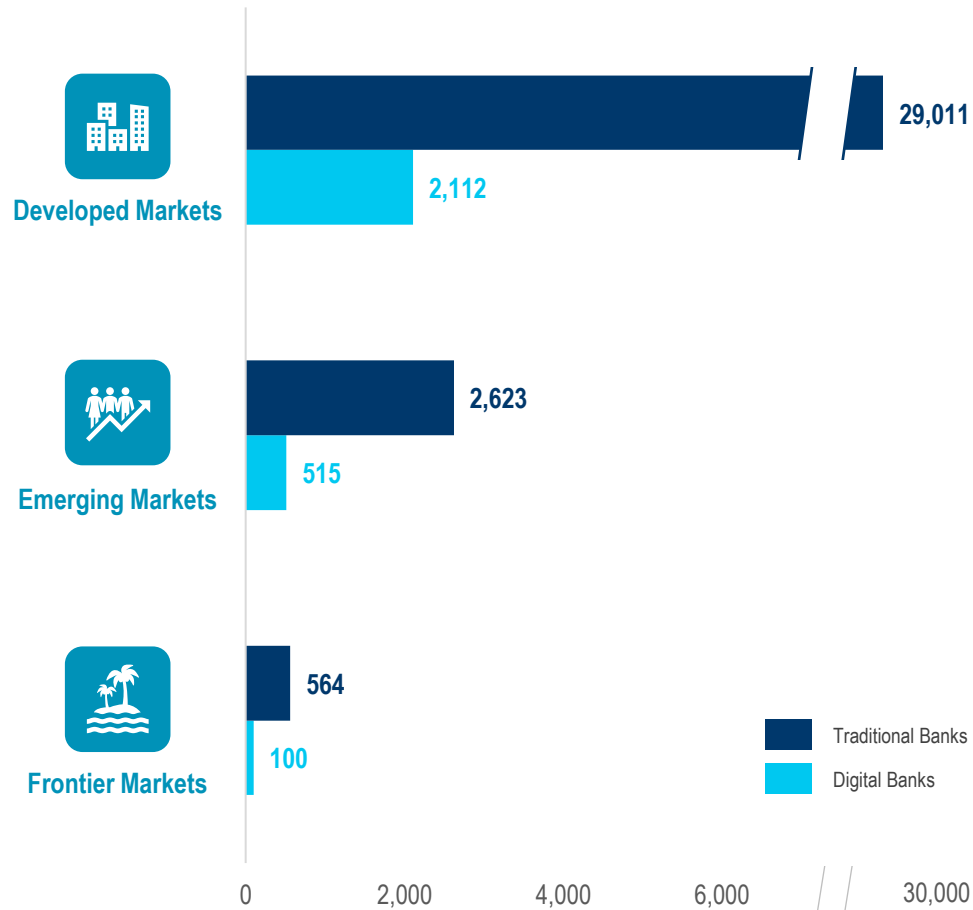
In developed markets like Hong Kong, Japan, and Korea, traditional banks have an average deposit level per customer of over USD 29,000, vs. USD 2,100 for digital banks, limiting their lending capacity and ability to monetise idle deposits into fee-based income (e.g. via the sale of investment / insurance products).

Furthermore, customers may exhibit less loyalty and can easily switch to competing banks. In fact, many digital banks in the region have seen large outflows of customer deposits (namely, back to their primary bank accounts) once their promotional deposit rates expire.

With a much lower average level of deposits per customer compared to traditional banks, monetisation (e.g. loans, sale of insurance / investment products) remains challenging





## Average Deposit per Customer

2022E, APAC Retail, USD



## Resulting Drawbacks

APAC Digital Banks

- 
**Limited Credit Offerings**  
 Digital banks do not have as much capital to fund a wide range of credit products, such as commercial loans, mortgages, etc.
- 
**Limited Investment Options**  
 Digital banks also have a smaller capital pool to invest and earn interest on, and may not be able to offer a wide range of investment products
- 
**Limited Fee Revenue**  
 With low average deposits, the fee revenue that digital banks could potentially generate from transactions and payments may also be limited
- 
**Reduced Customer Loyalty**  
 Customers with low balances may be less committed to the bank and be more likely to switch to a competitor

# ADDITIONAL HEADWINDS

## Key Takeaways











In addition expensive customer acquisition costs and low average deposits per customer (limiting activation and monetisation), there are several key obstacles confronting digital banks:

1. Trust issues: Digital banks must win the trust of retail customers and demonstrate how they offer better value than traditional banks.
2. Data security: Digital banks need to protect user data, maintain their credibility, and comply with regulatory requirements.
3. Talent retention: Digital banks are in a war for talent and need to address hiring bottlenecks and high staff turnover rates.
4. Competition: Digital banks face stiff competition – not only from from both other digital banks, but traditional banks who are investing heavily in their digital capabilities.

There are also a number of over-arching challenges facing digital banks in their quest to dislodge incumbents and emerge victorious over each other

## Challenges

Headwinds Facing Digital Banks

CHALLENGE	DESCRIPTION	SEVERITY	COUNTERMEASURE(S)
 <b>Trust Deficit</b>	Gaining retail customers' trust and showcasing their value-addition over traditional banks is a key hurdle facing digital banks		Digital banks may highlight any deposit insurance available and various data privacy and security measures undertaken
 <b>Data Protection</b>	Cybersecurity is essential for safeguarding user data, maintaining credibility, and meeting regulatory requirements		Deploy advanced cybersecurity measures, with regular updating of systems, and a strict internal and vendor management policy
 <b>Talent Management</b>	Competition over talent has erupted among the digital banks, resulting in hiring bottlenecks and high staff turnover rates		Establish a talent strategy that encompasses: (1) proactive learning and development; (2) robust remuneration practices; and (3) a future talent pipeline
 <b>Competition from Other Digital Banks</b>	Digital banks battling it out for wallet share have raised questions over whether the market size can support all eight players		Identify a niche / core focus that is in-line with the bank's internal capabilities and external brand positioning, including identified white spaces
 <b>Competition from Traditional Banks</b>	Traditional banks have responded with accelerated digital partnerships and aggressive price competition in the form of lower fees		Double-down on digital innovation (esp. customer experiences) as a key differentiator that can springboard digital banks ahead of competing traditional rivals

Low  High



SECTION 4

---

## SUCCESS CASES

QUINLAN  
& ASSOCIATES

# PROFITABLE VIRTUAL BANKS

## Key Takeaways

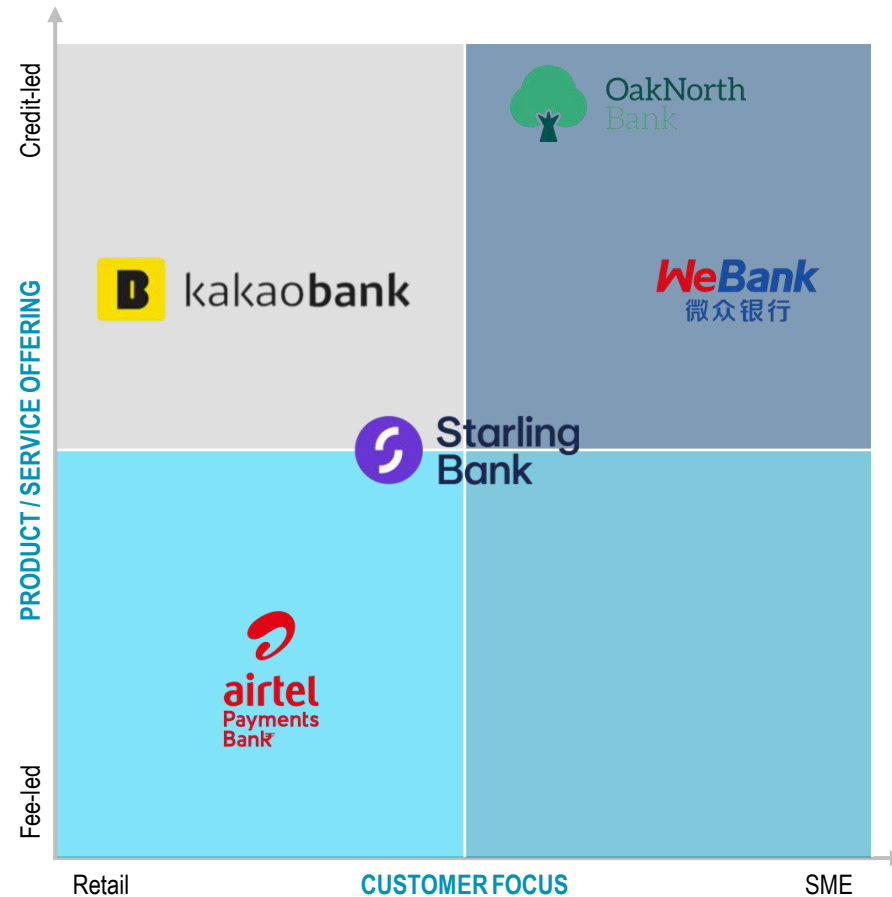
We have identified several profitable digital banks, including WeBank, KakaoBank, OakNorth Bank, Starling Bank, and Airtel Payment Bank, to examine their business models in greater detail, considering factors such as whether they are fee-led or credit-led and whether they primarily serve retail or SME customers.

This analysis can help us understand the key success factors behind each bank's unique business model in the following case study slides.

Examining some of the profitable digital banks globally, most are primarily balance sheet-led, focusing on both retail and SME customers

## Business Models

Product / Service Offering vs. Customer Focus



## Competitive Landscape

Select Global Digital Banks

	WeBank 微众银行	KakaoBank	OakNorth Bank	Starling Bank	Airtel Payments Bank	
CUSTOMERS	Retail	360 million	20 million	167,000	3 million	122 million
	SME	3.4 million	**	✓	460,000	200,000
PRODUCTS	Credit-led	✓✓	✓✓	✓✓	✓	*
	Fee-led	✓	✓	*	✓	-
FINANCIALS	Revenue (USD million, p.a.)	8,566	1,232	523	223	115
	Profit / Loss (USD million, p.a.)	1,518	202	189	38	1

Very Strong  
 Strong  
 - Neutral  
 Weak  
 Very Weak

# CASE STUDY (1/5) – WEBANK

## Key Takeaways

WeBank has achieved remarkable success by leveraging the vast customer base of Tencent's ecosystem, amassing over 360 million retail and SME customers.

To capitalise on this customer base, WeBank pioneered an innovative "online collaborative lending model" for personal loans. This model involves co-funding with partner banks at a 2:8 ratio, sharing interest income at a 3:7 ratio, and earning a 10% channel fee.

WeBank has also developed proprietary advanced risk models that integrate over 100,000 risk parameters. This enables the bank to approve loans in just 2.4 seconds and disburse funds in as little as 40 seconds. This speedy and efficient approach to lending has helped it to attract and retain customers, contributing to the bank's impressive net profit of over USD 1.5 billion in 2022.

Overall, WeBank's unique business and risk management models have been crucial in enabling the bank to monetise its vast customer base and generate sustainable profits.

# Adopting an innovative co-lending model and advanced risk modelling technologies, WeBank has successfully monetised its vast customer base and expanded rapidly

## Case Study

WeBank

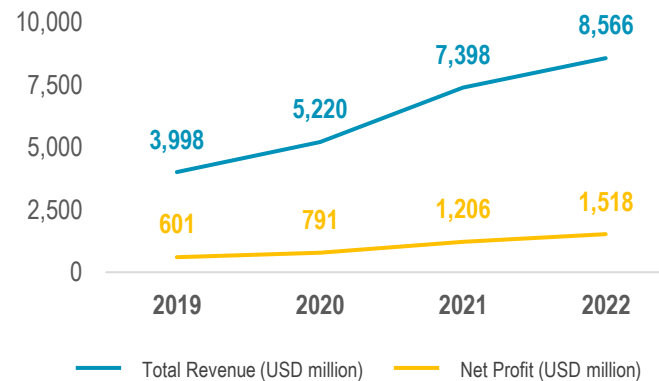


Founded in 2014, WeBank, China's first digital bank, is backed by Tencent. It serves over 360 million retail customers and 3.4 million SME customers, leveraging Tencent's large customer base in social media.

- ✓ *Credit-focused retail & SME bank*
- ✓ *Co-lending fueled scalability*
- ✓ *Agile risk management*

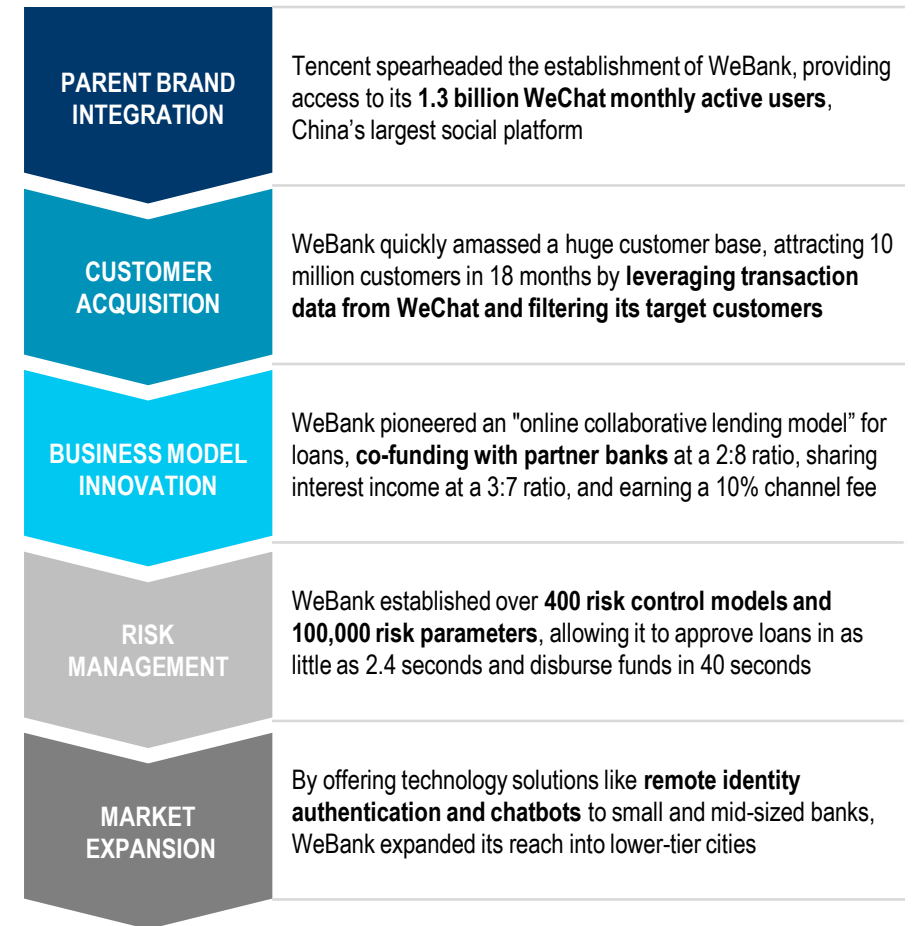
## Financial Highlights

2019-22



## Path to Profitability

Retail Lending



# CASE STUDY (2/5) – KAKAObANK

## Key Takeaways

KakaoBank, a South Korean digital bank linked to KakaoTalk, the largest instant messaging app in the country, has attracted a massive customer base of around 20 million users.

To monetise its retail customers, the bank offers a wide range of products, including deposits, debit cards, remittances, and a variety of loans, such as mortgages, microloans, overdrafts, and other forms of credit.

In addition, kakaobank has taken steps to improve customer loyalty and experience by providing a gamified experience with a user-friendly and enjoyable UI / UX.

Thanks to fellow group companies, KakaoBank stormed out of the gate, quickly attracting customers and then monetising them through loans, attaining profitability in just three years

## Case Study

KakaoBank

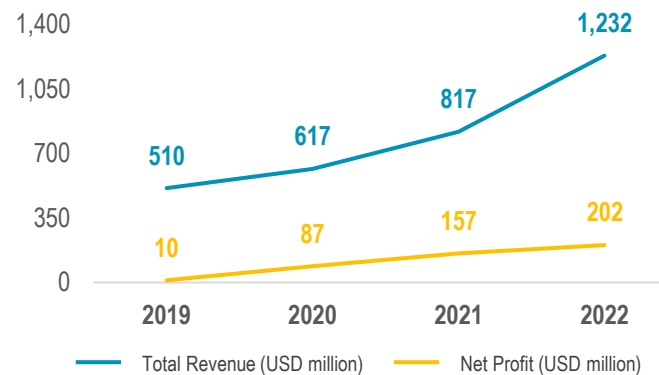


Established in 2016, KakaoBank is a South Korean digital bank with 20 million customers, especially popular amongst the youth, and posted its very first net profit in 2019

- ✓ Credit-focused retail bank
- ✓ Emphasis on gamified UI/UX
- ✓ Wide products delivered at scale

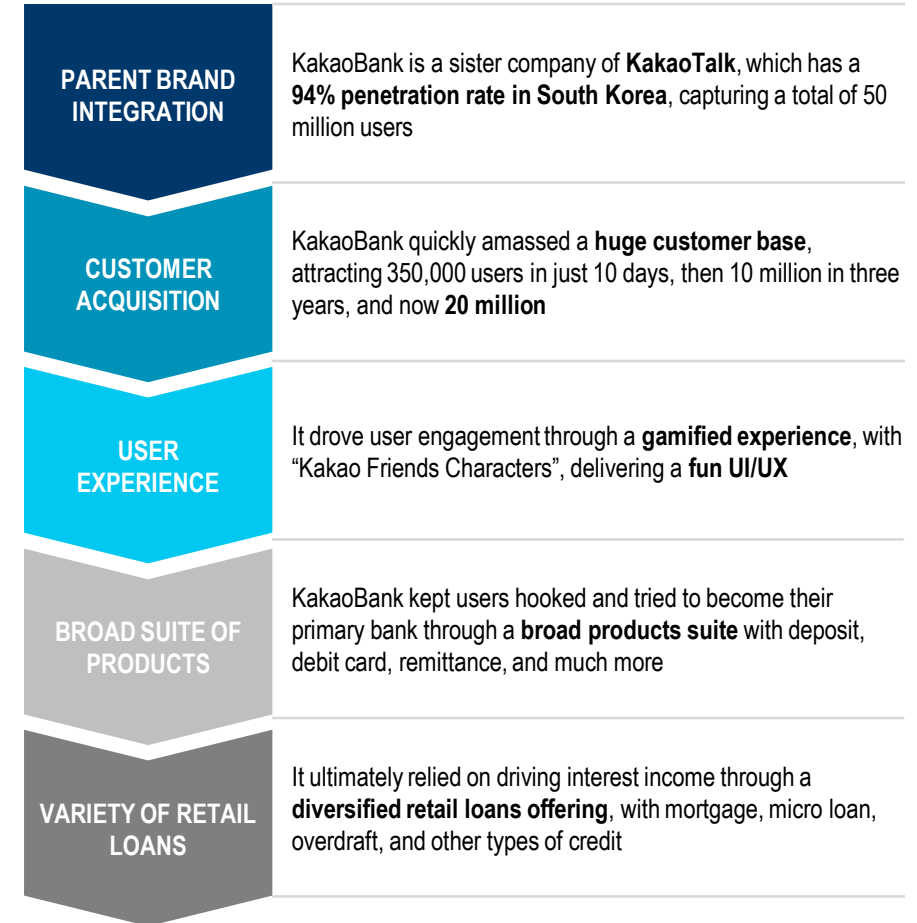
## Financial Highlights

2019-22



## Path to Profitability

Retail Lending





# CASE STUDY (3/5) – OAKNORTH BANK

## Key Takeaways

OakNorth Bank is a digital bank based in the UK that focuses on providing business and property loans to SMEs.

The bank has developed a cutting-edge credit scoring model called OakNorth Analytical Intelligence (ONAI) that utilises machine learning and big data.

With the help of this model, OakNorth Bank has been able to grow its loan book significantly, with its total loan facilities reaching USD 5.8 billion as of 2022.

After achieving profitability in SME lending, the bank expanded its business offshore by licensing its credit scoring model through a Banking-as-a-Service model, allowing other banks and lending-focused financial institutions to benefit from its deep credit expertise.

By leveraging its robust credit scoring technology, OakNorth Bank was able to confidently grow its loan book by lending to SMEs, becoming profitable in just two years of operations

## Case Study OakNorth Bank

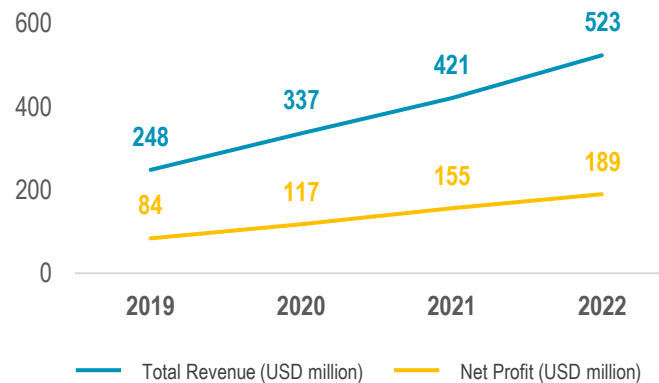


Launched in 2015, OakNorth is a British digital-only bank that specialises in providing business and property loans to the SME segment. In 2017, it became the first U.K. digital bank to turn a profit.

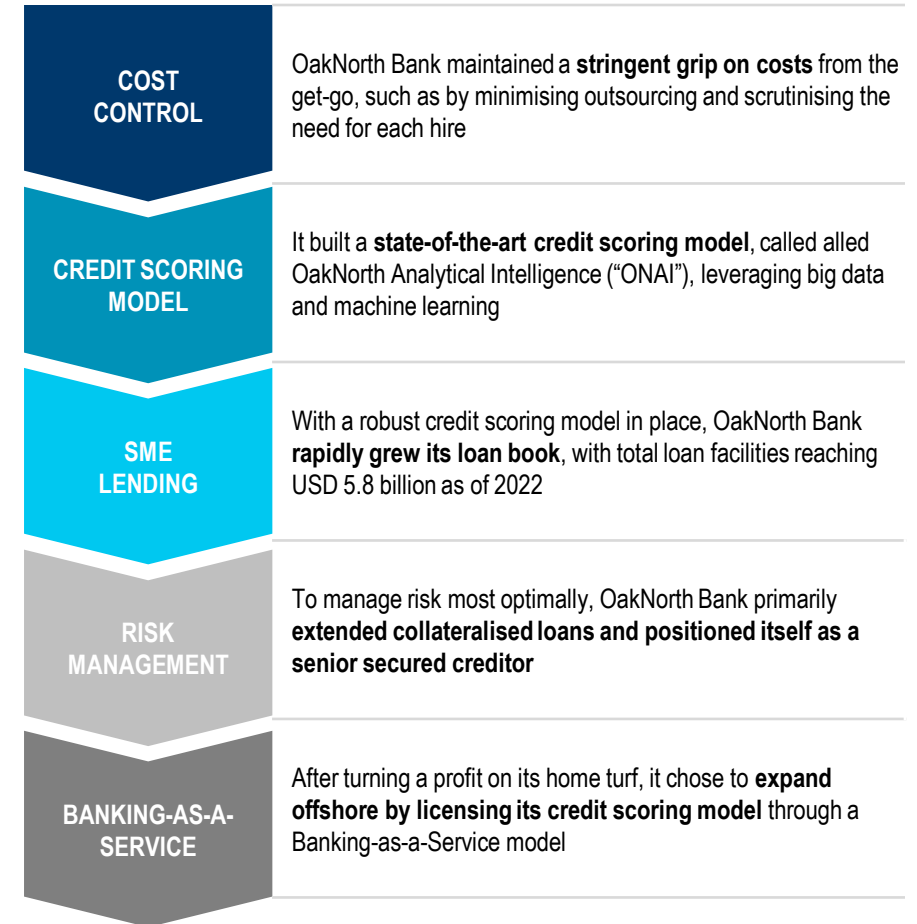
- ✓ *Credit-focused SME bank*
- ✓ *Robust credit scoring capabilities*
- ✓ *BaaS-led offshore expansion*

## Financial Highlights

2019-22



## Path to Profitability SME Lending



# CASE STUDY (4/5) – AIRTEL PAYMENTS BANK

## Key Takeaways

Airtel Payments Bank, a subsidiary of Airtel, is an Indian payments bank that has successfully served 122 million users on its digital platform and reached breakeven in 2022.

To attract deposits, Airtel Payments Bank offered a 6% interest rate, which resulted in attracting a remarkable ~USD 141 million worth of deposits.

Moreover, through its network of 200,000 merchants, Airtel Payments Bank has garnered a base of 43 million monthly transacting users. It processes USD 16.8 billion in gross merchandise value annually with a take rate of 0.74%, deriving 80% of its revenues from transactions.

Furthermore, Airtel Payments Bank also cross-sells third-party offerings, including insurance and loans, which make up 15% of its revenue.

Through facilitating transactions, Airtel Payments Bank managed to attract a sizeable active customer base of 43 million people, turning a profit in five years of operations

## Case Study

Airtel Payment Bank

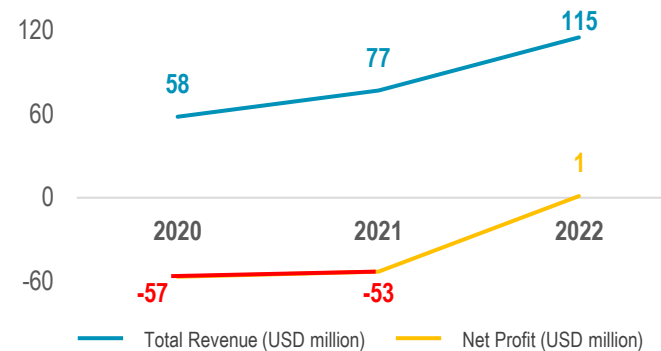


Founded in 2016, Airtel Payments Bank is an Indian payments bank and a subsidiary of Airtel, which serves 122 million users on its digital platform and manages to break-even in 2022

- ✓ *Payment-focused retail bank*
- ✓ *Leverages Airtel's customer base*
- ✓ *Cross-sells 3<sup>rd</sup>-party solutions*

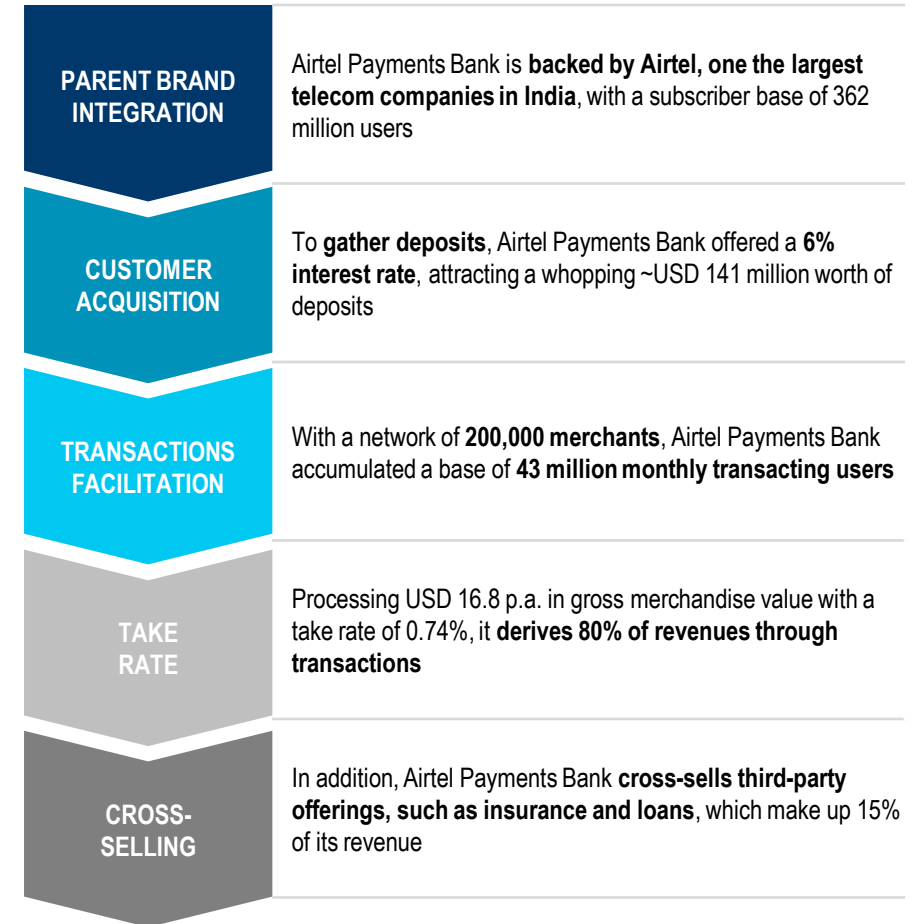
## Financial Highlights

2020-22



## Path to Profitability

Retail Transactions



# CASE STUDY (5/5) – STARLING BANK

## Key Takeaways

Starling Bank is a digital bank in the U.K. that focuses on serving both retail and SME customers.

It has a different customer target compared to most digital banks, catering to older and more affluent customers who have an average deposit of USD 2,600.

To meet the needs of its customers, Starling Bank acquired Fleet Mortgages in 2021 and expanded its mortgage lending business to USD 1.41 billion.

In addition, Starling Bank created a marketplace of third-party offerings for SMEs by integrating with various platforms, including Slack, Xero, and QuickBooks. It utilised the “Incentivised Switching Scheme” of the Banking Competition Remedies to attract SMEs from its competitors and onto its platform.

By using government-backed pandemic loan schemes, Starling Bank built a USD 2.5 billion loan book for SMEs, helping it to accumulate a sizeable balance of low-risk assets.

# Starling Bank won over customers’ heart- and mind-share through non-credit offerings and then successfully monetised them via credit offerings, turning a profit after eight years

## Case Study

Starling Bank

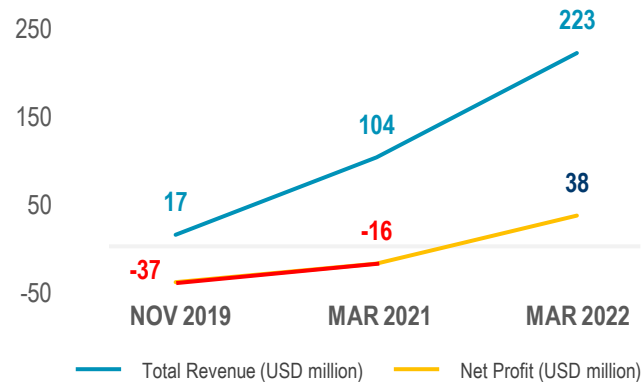


Established in 2014, Starling Bank is a U.K.-based digital bank that serves retail and SME customers, which has made a loss since it first started all the way to 2022, while its rivals continue to record losses

- ✓ *Universal bank focused on depth*
- ✓ *SME focus on lending + integrations*
- ✓ *Scaled retail lending via mortgages*

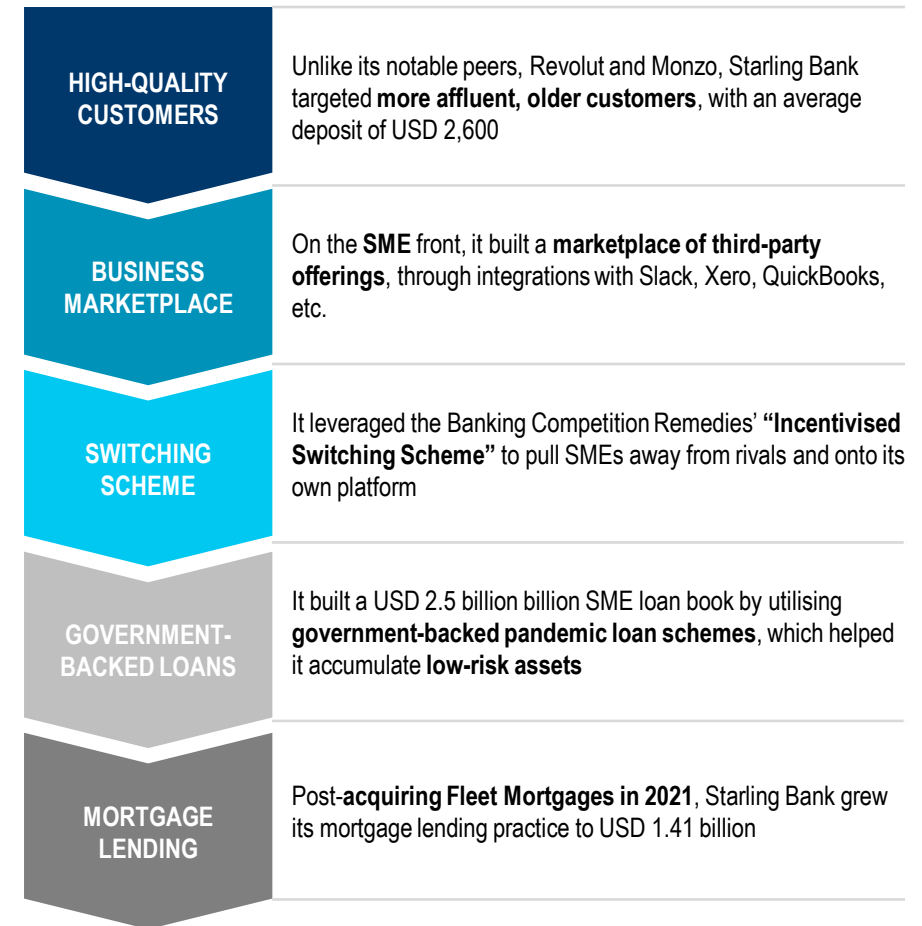
## Financial Highlights

Nov 2019 – Mar 2022



## Retail & Business Proposition

Starling Bank



# CASE STUDIES KEY TAKEAWAYS

## Key Takeaways

We have identified several important lessons that can be drawn from the success of profitable digital banking models globally:

### Retail-Focused Banks

1. Incorporating gamification into the UI / UX
2. Offering a diverse range of credit products
3. Leveraging the well-known parent and/or shareholder brand(s)
4. Encouraging frequent usage
5. Advanced risk modelling capabilities
6. Streamlining the customer experience

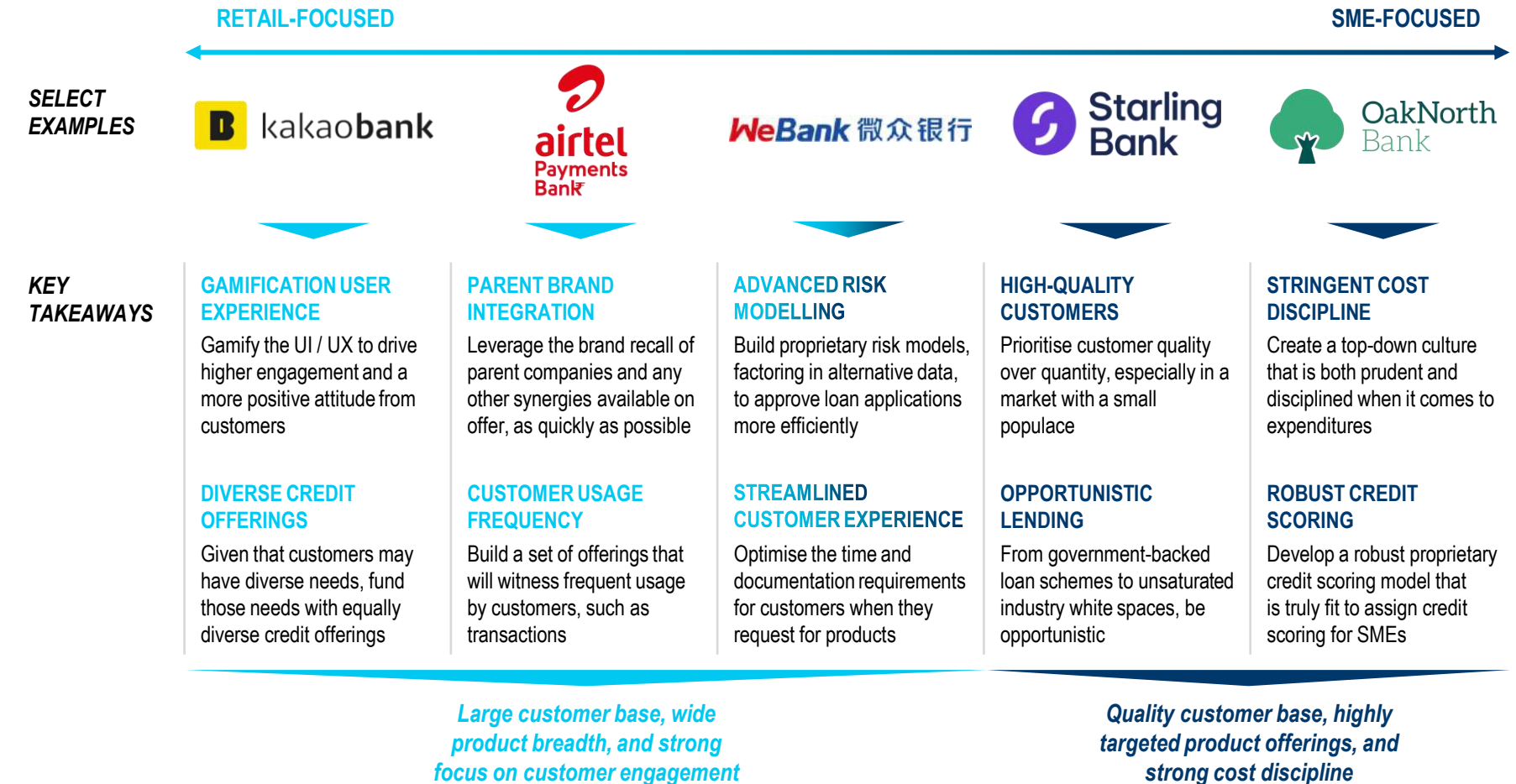
### SME-Focused Banks

1. Attracting high-quality customers
2. Opportunistic lending focus
3. Strong credit scoring capabilities
4. Stringent cost discipline

Based on our analysis of each of these case studies, we have identified some key takeaways that digital banks should bear in mind when crafting their own strategies

## Case Studies

Key Takeaways





## SECTION 5

---

# THE WAY FORWARD & HOW WE CAN HELP

QUINLAN  
& ASSOCIATES

# CHARTING THE PATH TO PROFITABILITY

## Key Takeaways

In charting the path to profitability, digital banks must focus on 3 key areas:

### 1. Acquisition:

- Customer acquisition
- Customer experience

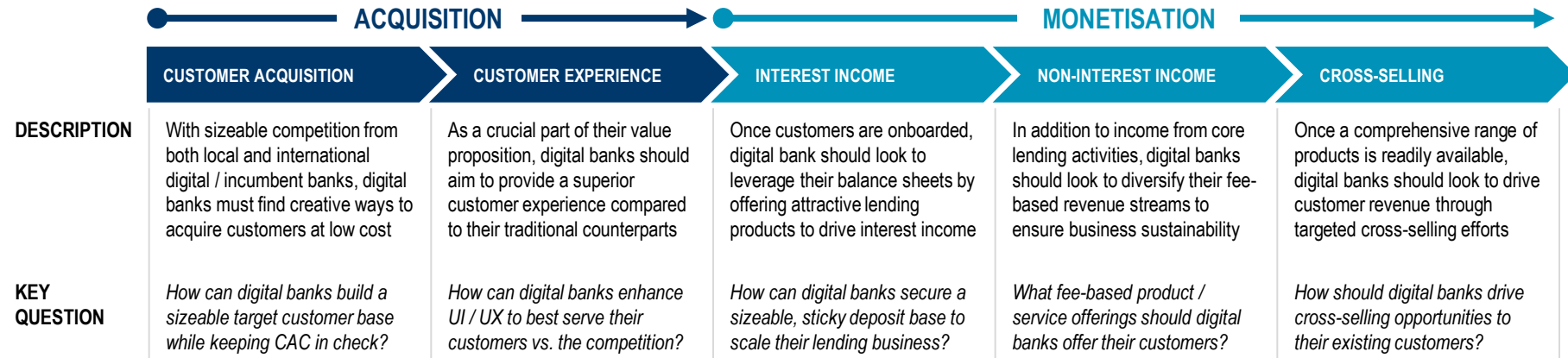
### 2. Monetisation:

- Interest income
- Non-interest income
- Cross-selling

### 3. Strategic Superchargers:

- Third-party partnerships
- Ecosystem / Platform proposition
- Geographic expansion

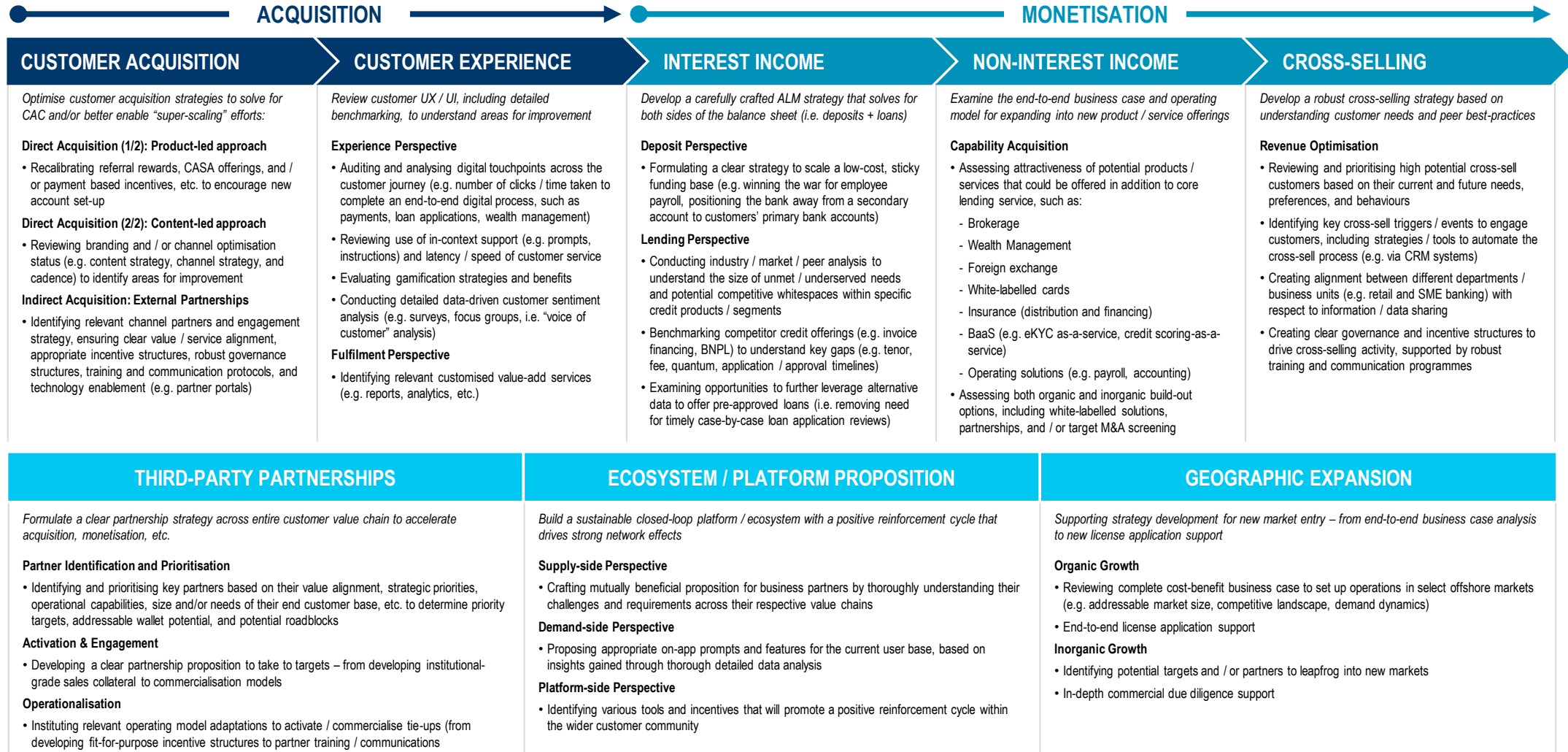
We see eight key areas that need to be addressed by virtual banks in charting their path to profitability, including acquisition, monetisation, and addressing strategic “superchargers”



## STRATEGIC SUPERCHARGERS

# HOW WE CAN HELP

The Quinlan & Associates team can support you on your journey to profitability



## STRATEGIC SUPERCHARGERS

# QUINLAN & ASSOCIATES

STRATEGY WITH A DIFFERENCE

## Copyright © 2023 Quinlan & Associates.

All rights reserved. This report may not be distributed, in whole or in part, without the express written consent of Quinlan & Associates. Quinlan & Associates accepts no liability whatsoever for the actions of third parties in this respect.

The information and opinions in this report were prepared by Quinlan & Associates. This report is not financial or investment advice and should not be relied upon for such advice or as a substitute for professional accounting, tax, legal or financial advice. Quinlan & Associates has made every effort to use reliable, up-to-date and comprehensive information and analysis in this report, but all information is provided without warranty of any kind, express or implied.

Quinlan & Associates disclaims any responsibility to update the information or conclusions in this report. Quinlan & Associates accepts no liability for any loss arising from any action taken or refrained from as a result of information contained in this report or any reports or sources of information referred to herein, or for any consequential, special or similar damages even if advised of the possibility of such damages. This report is not an offer to buy or sell securities or a solicitation of an offer to buy or sell securities.

**Website** [www.quinlanandassociates.com](http://www.quinlanandassociates.com)  
**Email** [enquiries@quinlanandassociates.com](mailto:enquiries@quinlanandassociates.com)  
**Telephone** (+852) 2618 5000  
**Address** Level 19, Two International Finance Centre  
8 Finance Street, Central  
Hong Kong

## AUTHORS

---

### Benjamin Quinlan

CEO & Managing Partner

T: +852 2618 5000

E: [bquinlan@quinlanandassociates.com](mailto:bquinlan@quinlanandassociates.com)

### Justin Chung

Engagement Manager

T: +852 2618 5000

E: [jchung@quinlanandassociates.com](mailto:jchung@quinlanandassociates.com)

### Alison Hu

Senior Consultant

T: +852 2618 5000

E: [ahu@quinlanandassociates.com](mailto:ahu@quinlanandassociates.com)

### Jeanny Ang

Senior Consultant

T: +852 2618 5000

E: [jang@quinlanandassociates.com](mailto:jang@quinlanandassociates.com)