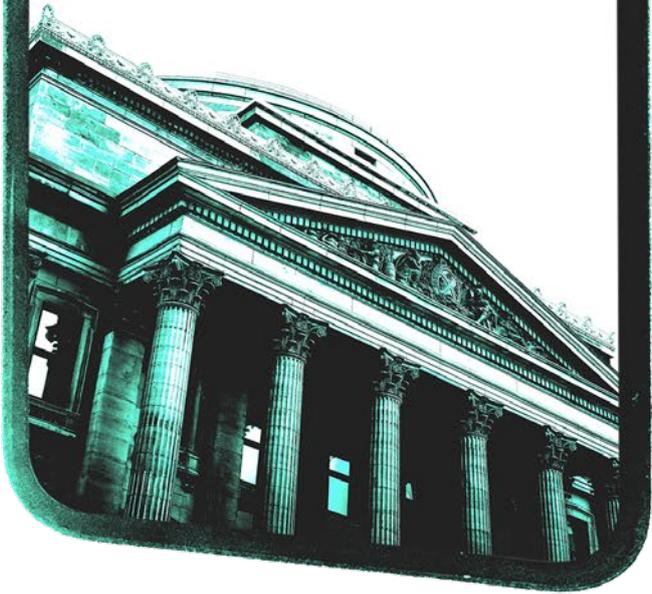


How to Build a Bank



Defining,
creating and
launching **truly**
digital financial services
that customers will love.

03

Welcome

04

Why this
matters now

06

Digital vs Digitised
financial services

07

The rules - and
competition -
have changed

08

Challengers
differentiate
on service

09

Profitability and the
CI ratio

10

Incumbents
approach to
transformation

Contents.

16

How banks
traditionally
launch products
is broken

17

A new
mentality is
required

18

Phase 0 -
Getting started

21

Phase 1 - Alpha
and defining
what matters

23

Phase 2 - Beta,
1000 users and
creating a wait list

26

Phase 3 - Scaling
the proposition by
engaging the
community

29

Conclusion -
Building your
Bank

Welcome.

So you want to build a bank. Why?

If you're reading this then a number of scenarios have likely occurred:

- You've tried 'digital transformation' programs, spent millions and wondered why operational costs remain high but customer numbers haven't taken off.
- You've tried a spin-off from your bank to build something new, setting it apart from the parent brand. And now you have two banks.
- You're a non-financial service firm that sees significant opportunities to offer services adjacent to your brand. Smart strategy.

Then you've come to the right place.

Whether you're starting out with a new idea, or an incumbent having seen the failure of other approaches in the market, and are curious to understand how to not repeat the same mistakes.

In this paper we will break down the challenges, the various considerations through the early stages and how to set up the new service for long-term success.

Simon Taylor
Head of Ventures at 11:FS

Why this matters now

Your operational costs are too high. Your brand is consistently ranked near the bottom of customer satisfaction surveys. You know you have to move from digitised products to truly digital services. You just can't see how, especially with everything else going on.

The good news: you're not alone in experiencing one, some or all of these issues.

The bad news: while you're experiencing one, some or all of these issues, new, well-funded, digitally native services are coming to market for current accounts,

savings, loans, mortgages, investments and more.

So how are you going to react?

As consumer attitudes continue to shift, driven by digital experiences in retail, entertainment and transportation, the pace of change is only increasing. As non-financial services players with huge brand equity and scale start to chip away at the markets you've served for decades, the timeline for delivering truly digital services is shrinking.

The technology is here and at our collective disposal to stand up new services in a matter of months - from the core system and the customer interactions channels through to the distribution channels that offer the ability to reach a broader audience at a lower cost.

There are no more excuses.



Section 1: Why build a bank?



Digital vs Digitised financial services

Banks are spending billions on digital projects: new apps, automation, chatbots, intelligent services, and APIs.

They will tell you that they are 'digital', pointing to their app and APIs, and they are confident that they will survive the digital shift that is rolling glacially across all industries and markets.

But there is a key distinction here that many often miss: are you digitising what came before or creating truly digital services? When the first wave of digital technology came along, we saw the opportunity to 'digitise'. That bank statement could now be shown on a screen. Writing cheques could be actioned on that black bit of glass, and questions turned into FAQs. A new channel was born: digitised banking.

When you walked into a branch you had a human, who you could relate to and who, in turn, could empathise with you. When we digitised banking, we created a service gap. The service gap lengthens the distance between customers and banks.

Understanding the virtues of being digital is the pathway to delivering truly differentiated digital banking services. The characteristics of the new technologies and how they support building real time, intelligent, contextual services that are human and extendable.

The services that actually solve for a job to be done for a customer who is underserved and overcharged, will radically change the shape of the dominant organisations in financial services.

The rules - and competition - have changed

Technology to deliver lower cost, digital-only products and services in the financial services industry was well established. But post-financial crisis there was additional regulatory support to encourage competition.

PSD2 in Europe and, subsequently, Open Banking in the UK have been catalysts for concerted regulatory support around financial services innovation. Institutions that had spent decades defending their walls were being forced to open up. Australia has followed suit with its own version of Open Banking, while Hong Kong, Vietnam, Malaysia and Singapore are in various stages of introducing digitally-native 'virtual banks'. All of these global initiatives have reduced the barrier and cost to becoming a bank.

That in turn has spurred both incumbents, challengers and non-banking tech giants such as Tencent and insurance giant Ping An to enter those markets.

In the US, institutions could argue things are so different, with customer expectations and market forces shaping the evolution of financial services. That is true, to an extent. There is no coherent regulatory framework to actively encourage digital financial services development.

However, there are enough digital natives who want a better banking experience for them to shift the

overall market. Since then we've seen Simple, Chime, Qapital, Tally, Dave and others come to market, raise significant capital and gain a substantial customer base. Then there's the European fintechs coming to the US - N26, Monzo and others - who have the benefit of years of experience serving digitally savvy customers.

Challengers differentiate on service

When the challenger banks first launched in the UK, the reaction of many was to see some of their core features as nice to have, or targeted at a specific demographic. Increasingly as the customer survey wins happen, customer growth numbers increase, and challengers win net promoter scores, the perception has shifted.

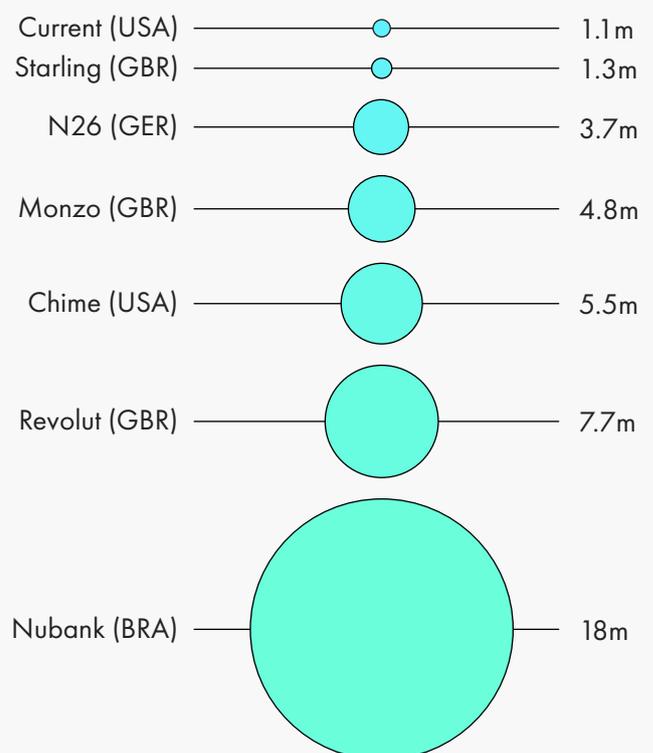
Challenger banks have made service a key battleground in financial services. Their service extends well beyond simply offering merchant logos or real time notifications. Their competitive advantage is the ability to design great experiences and communicate in a less corporate tone: seamless onboarding, supported by plain English terms and conditions, and real transparency with customers about errors or system issues.

Their grasp of modern tech architectures has allowed them to create the same or better levels of service that incumbent banks offer at a fraction of the cost per account.

This has created a new level of digital service for customers and created an expectation that cannot easily be matched by copying features alone.

Increasingly the gulf between the best in class digital experiences and the rest is growing.

Global app downloads in the last 365 days



Source: Apptopia

But challengers aren't 'profitable': the CI ratio

The argument goes that the challengers are interesting but "they're not making a profit". That their funding models are often heavily backed by VC funds that have helped get them to market and then scale through various funding rounds that have created valuations that don't relate to the size of their customer base, or growth rates.

Incumbent banks aren't charities, and incumbents especially have a duty to be responsible to their shareholders. In spite of massive headwinds and challenges in the market, many incumbents are profitable, and moving from that base is a position of strength.

If we assume that the digital challengers either a) don't make a profit or b) will never make a profit, then an argument could be made that there is no need to change.

So why would you want to follow that model?

It doesn't tell the complete story because some challengers are profitable and within a year, others will be too. OakNorth is a case in point: in the United Kingdom, it reported a £33.9m profit in 2018, up from £10.7m the year earlier.

While this pales in comparison to the major global banks that are hundreds of years old and generate billions in profits quarterly, the profitability question isn't as simple as looking at one annual report.

In early 2019 OakNorth raised \$440m in funding from SoftBank, valuing them at \$2.2bn. This cash injection suggests the investors are looking for growth at this stage of the company's life, and it has already proven its ability to produce a profit.

Perhaps the most interesting thing however, is the cost to income (CI) ratio - a measure of how much of your income is immediately swallowed by managing your costs. So if a bank earned \$100m, but their costs were \$60m, you would say their cost to income ratio was 60%.

The annual reports of most incumbent banks show a CI of between 55% to 65%. OakNorth reports its CI as closer to the low 30% range. This is a number investors care about because it impacts the key financial performance of the bank's return on equity (RoE), in other words, how much profit does each dollar of investment in a bank generate.

Why it matters

While there is unquestionably a level of risk that some (or even many) of the challengers never hit profit, the case for their defence is compelling and often missed.

There are two big if's:

- **If** they can continue to acquire customers, move into new markets and keep their cost to serve and cost of acquisition low, then over time as their businesses scales their cost income ratios would remain low.

With a low cost income ratio the bar of revenue they have to hit for profit is far lower than incumbent banks with the same (or more) customers.

- **If** they can shift customers away from using their accounts as travel cards or everyday spend cards to using the challenger bank as their core salaried account, they would increase their deposit base, meaning they could lend more, meaning they could be more profitable.

There is some risk here, but it's also not to be overlooked that they have all created tech platforms, and acquired millions of customers to those tech platforms and products at a far lower cost than the equivalent projects would have been inside an incumbent bank.

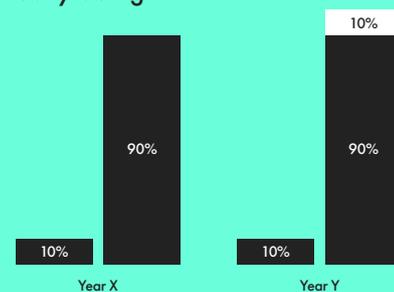
This makes their approach worthy of closer examination. However, there are other issues incumbents face that make a new approach the only viable option.

Incumbents approach to transformation

Banks are well aware of the shifting consumer sentiment, new technology trends and global regulatory environment that is altering the rules of engagement. They see what the challengers are doing. So why are they slow to respond, even when it comes to copying basic features such as card freezing or real-time notifications?

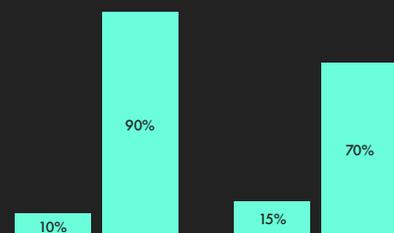
Through 2018 and 2019 major global banks announced "digital" spending budgets ranging from **\$1bn to \$11bn**. The largest European banks averaged somewhere between \$2bn and \$4bn, with the likes of **Citi Bank announcing \$8bn** and **JP Morgan \$11bn**. IDC estimated that 70% of this spend is on third party software.

What investment is really doing:



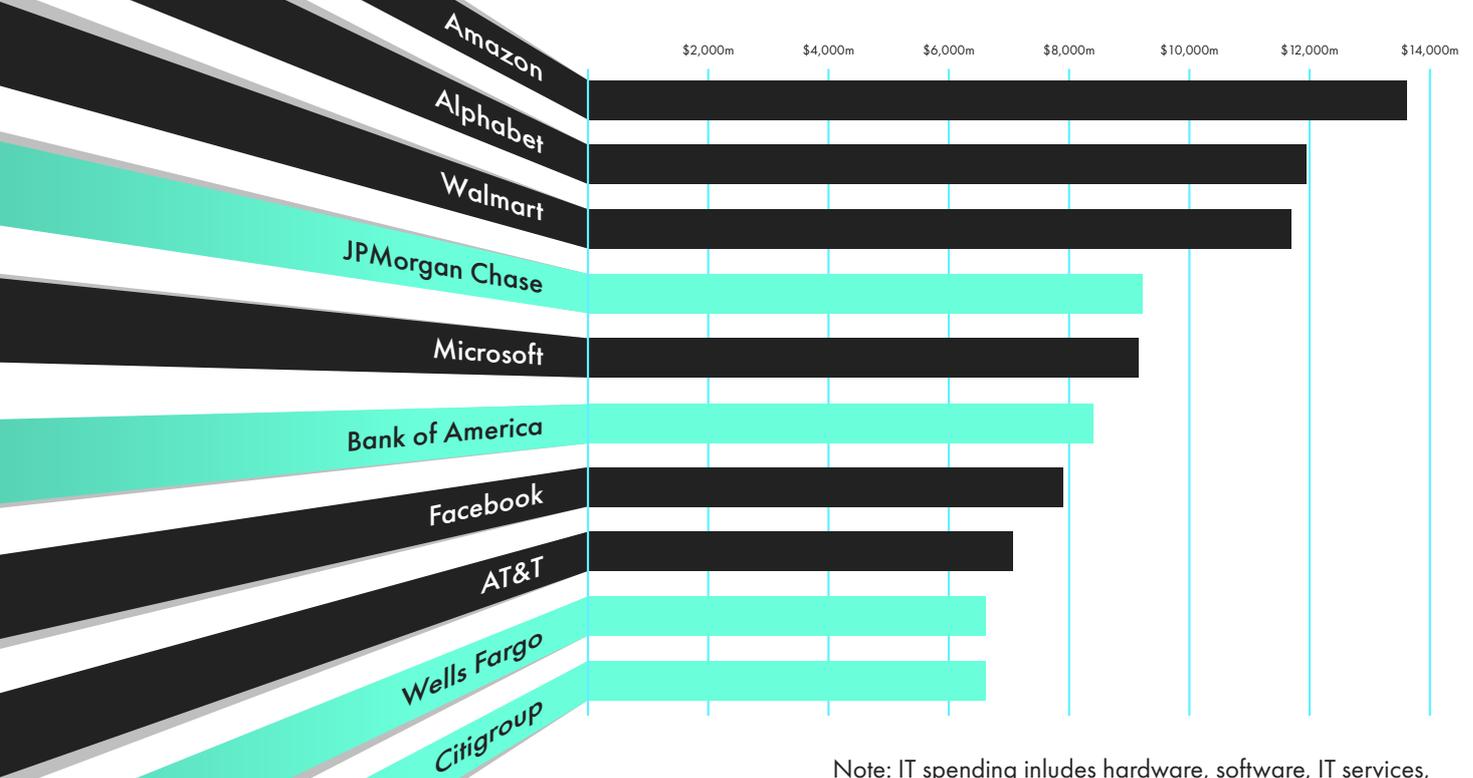
Capex investment is YoY layering more opex cost into every bank's operations with little saving.

What investment **should** be doing:



We have to focus on doing this better rather than doing it cheaper, especially in the context of an impending downturn.

For the wider context, look at the chart below showing IT spend by company. Four of the top ten spenders are banks. But how and where these firms spend dramatically differs. Amazon spent \$13bn. The overwhelming majority of that spend was not on third party software. Alphabet Inc, which is developing a self driving car, and organising the world's information spent around \$12bn, overwhelmingly on its own software and capabilities.



Note: IT spending includes hardware, software, IT services, telecommunications services and internal IT spending.
 Source: IDC's Worldwide IT Wallet, 2019

For all of this investment, it would be reasonable to expect that banks' overall costs are coming down given the efforts in "transforming" the existing business. The reality is year on year cost is increasing, meaning an endless cycle of banks having to run faster and faster just to stay still.

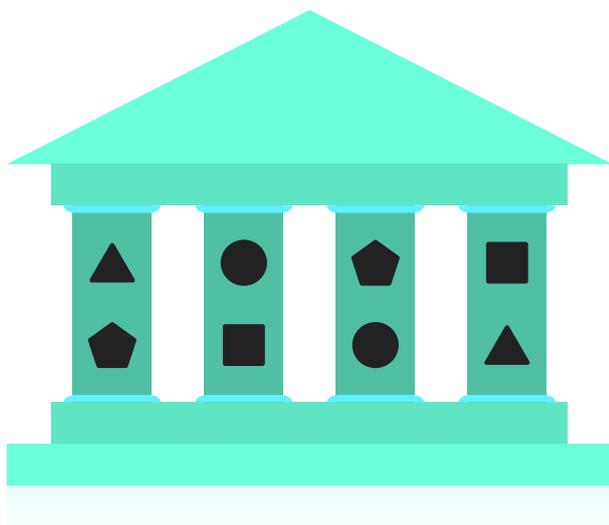
This cycle also affects mid-sized banks who need to keep up with the features and capability of the largest banks with the largest budgets and customer base. These smaller banks, with similar IT challenges and cost challenges, do not have the cash available to invest at the same scale. Banks with less than \$100bn in assets are often spending less than **\$100m on IT per year.**

Legacy architecture exacerbates the problem

The reasons for this massive spend can be attributed to how this technology real estate is architected. For banks, which have mostly relied on vendor solutions, their organisations exist in product silos, from the current (checking) accounts, to savings, to loans, to mortgages and everything in between. Each of these lines of business tends to have its own systems, processes and complexities.

Digital transformation projects often spend tens if not hundreds of millions trying to modernise all of this. Generally, this takes the form of putting a layer over the top of all of the silos, or by trying to create centralised services (think single sign on, single customer view etc). The problem is, with thousands of IT systems provided by hundreds of vendors across multiple geographies, the tech architecture isn't designed for real-time digital services.

What a bank infrastructure looks like:

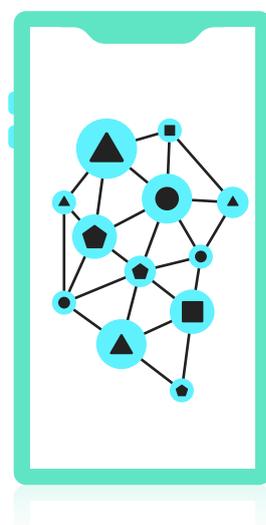


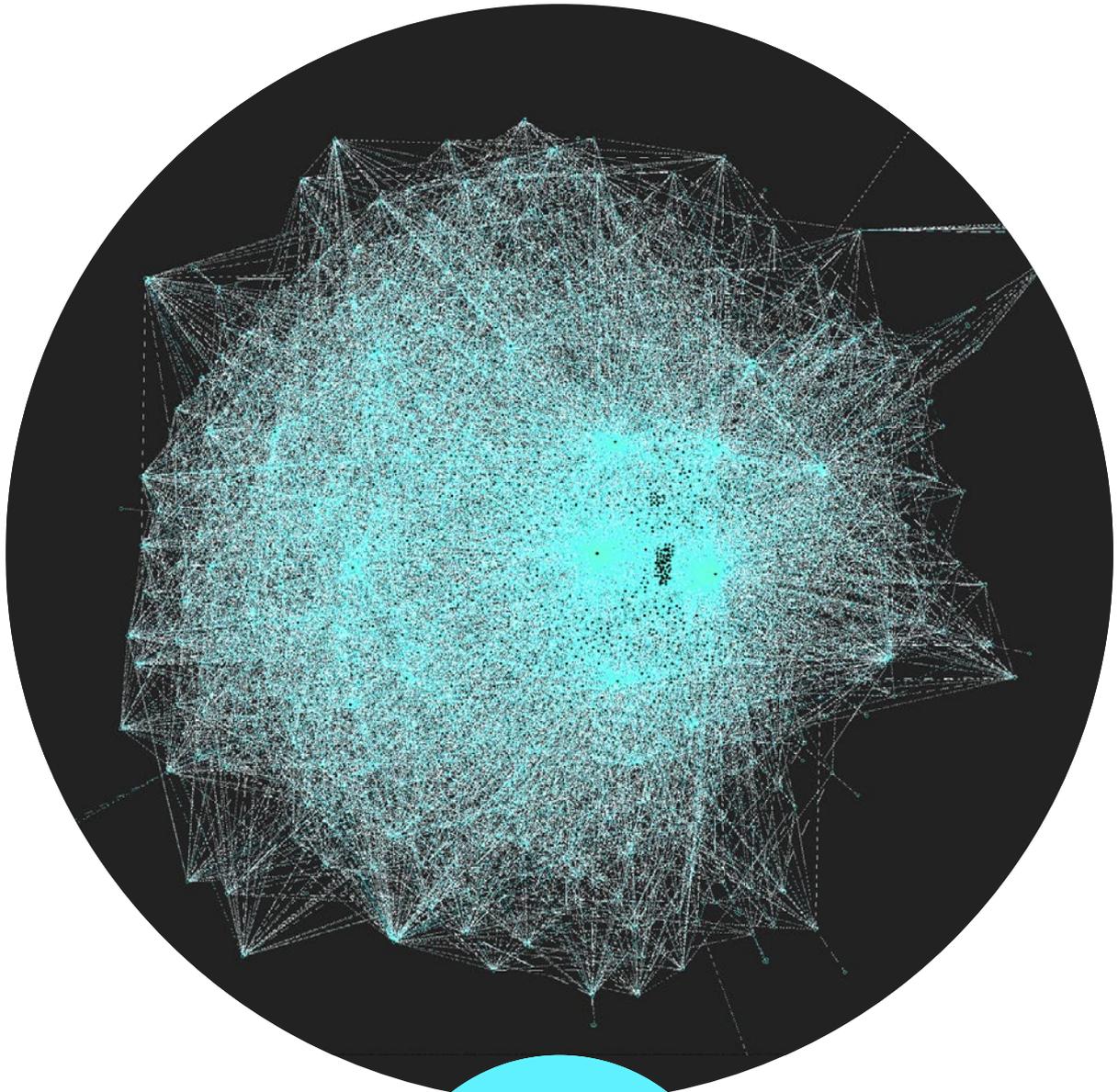
New entrants can move quickly, with no technical, product or process debt or culture to bog them down. They saw an opportunity and with cloud computing and APIs as their base, have built products and services using new ways of working such as small teams that worked on projects rather than in strict teams.

This approach, along with the decision to avoid brick-and-mortar branches, enables them to run much more lightweight organisations that can move faster, with lower cost bases and therefore lower fees.

Note, the picture below suggests there's somehow 'less' start-up infrastructure and in complexity and silo terms that's true, but don't confuse that for an inability to scale. Many start-ups are built using the same techniques Facebook, Google and LinkedIn use.

What a start-up infrastructure looks like:

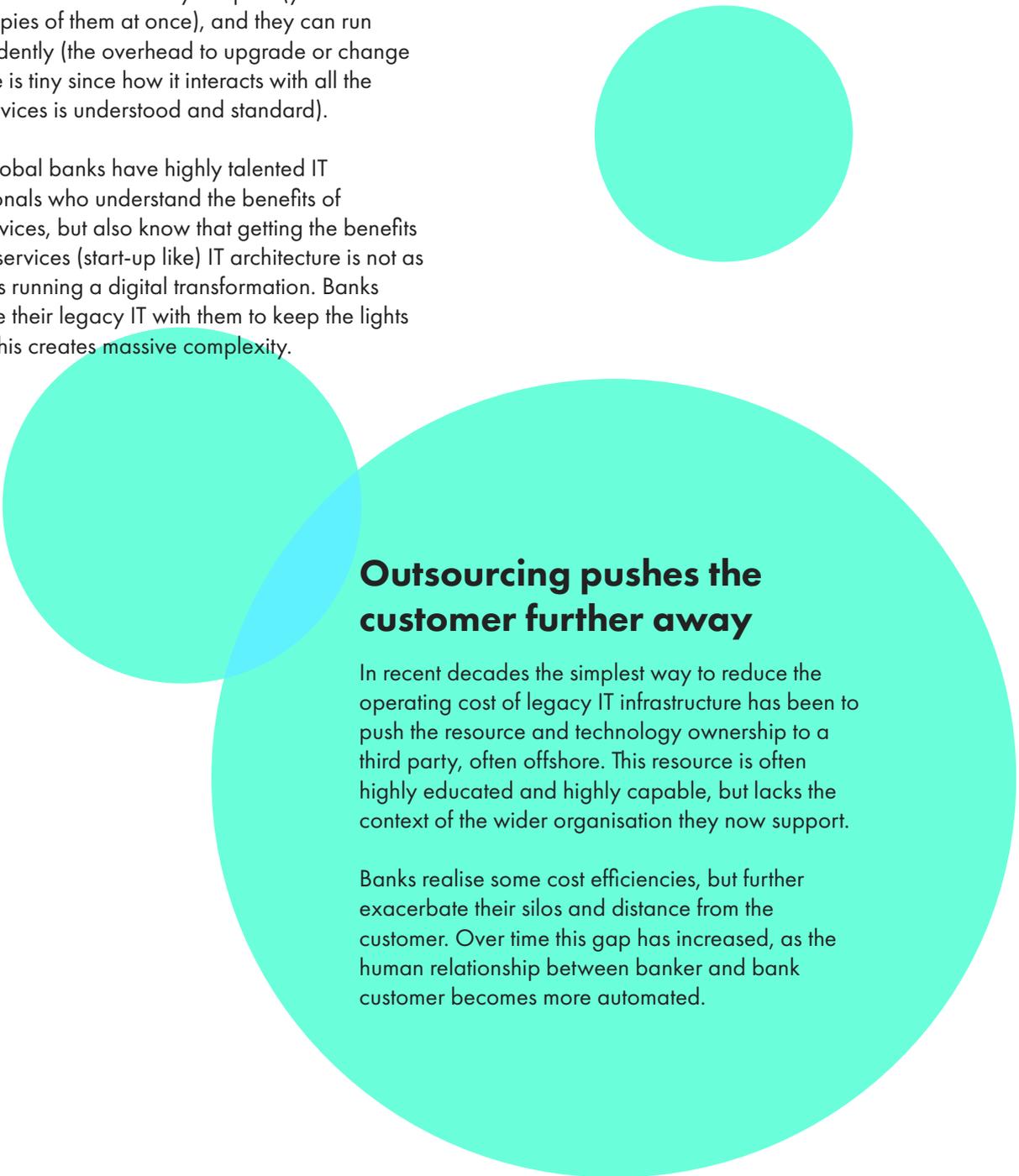




*The image above is Monzo's
microservices architecture
where every line is an
enforced network rule
allowing traffic.*

The idea is to split IT services into the smallest possible service (a 'microservice'). These microservices can be loosely coupled (you can run many copies of them at once), and they can run independently (the overhead to upgrade or change a service is tiny since how it interacts with all the other services is understood and standard).

Many global banks have highly talented IT professionals who understand the benefits of microservices, but also know that getting the benefits of microservices (start-up like) IT architecture is not as simple as running a digital transformation. Banks must take their legacy IT with them to keep the lights on and this creates massive complexity.

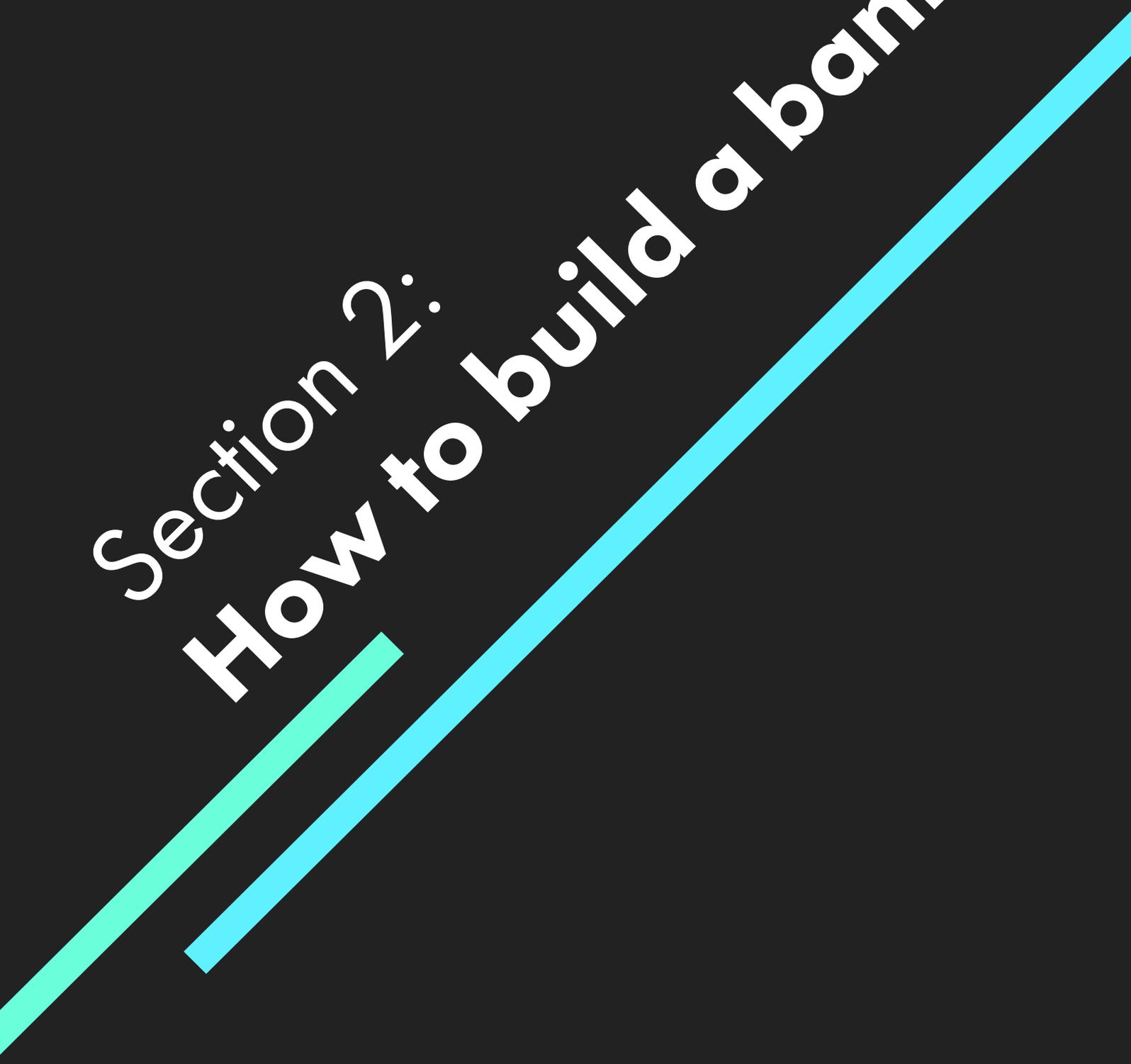


Outsourcing pushes the customer further away

In recent decades the simplest way to reduce the operating cost of legacy IT infrastructure has been to push the resource and technology ownership to a third party, often offshore. This resource is often highly educated and highly capable, but lacks the context of the wider organisation they now support.

Banks realise some cost efficiencies, but further exacerbate their silos and distance from the customer. Over time this gap has increased, as the human relationship between banker and bank customer becomes more automated.

Section 2: How to build a bank



How banks traditionally launch products is broken

Being born digital is fundamentally different to digitising. When something is built for the first time, it is rarely expected to support millions of customers and be regulated. The first test bit of code really only needs to give the organisation some learning and we don't expect it to be 'at scale' yet. After all, Facebook began in a Harvard dorm room, spread to a single college campus, then went wider.

Banks rightly need things to run at scale in order to have a material impact to their share prices and bottom lines. As a result anything 'small scale' risks being too small to matter or make a difference.

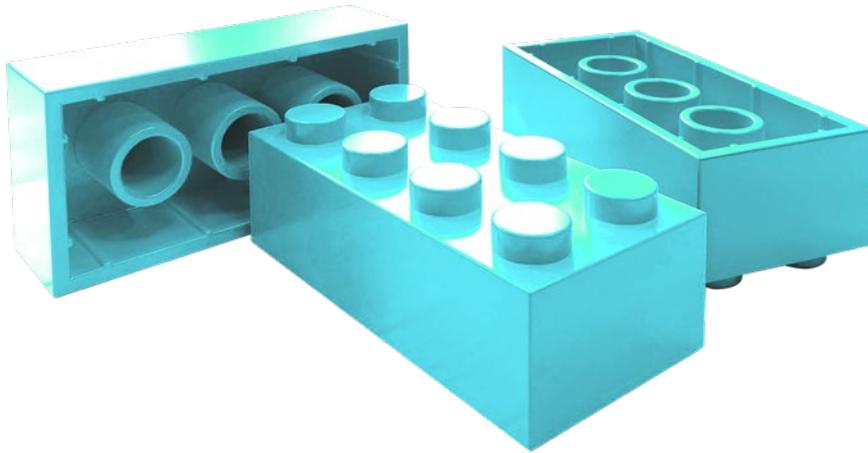
They have done smaller, agile experiments numerous times over the past decade and have a small army of talented designers, engineers and product folks with customer concepts and labs, all of which look promising but never seem to scale.

To create a truly new product in an incumbent is exceptionally hard. The bank doesn't lack talent, money or customers. However, if you start at what systems you already have, what suppliers you already have and with the people who work in those teams serving your customers today, you'll end up in a very similar place to where you started.

It's easy to see the temptation: the bank has a great enterprise-wide deal with a given supplier, so it seems wasteful not to use that. Until you start to see the impact of trying to use that supplier on your delivery timeline, cost and quality. Incumbent suppliers aren't bad; they just aren't set up for customer-driven product development.

For a long time the reality has been banks have said the words customer centric, but made decisions based on all of the challenges that come along with running a business at scale for millions of customers. That's the reality of having 4,000 IT systems, 24 data centres around the world and programmes that are over staffed with hundreds of people within months of starting.

Same systems, same suppliers, same outcome.



A new mentality is required

The first thing a start-up has to do is raise a seed amount of capital, giving them a short amount of time to prove the value of their existence. This forces a type of decision making that you wouldn't see in larger organisations.

There is no strategy team, no tech team, no legal department. There's just a handful of people who have to do everything. If they don't succeed not only does the project end, but their careers and livelihoods become less stable. These constraints change how decisions get made and force them to focus only on what is most important in the immediate moment.

Small risks should be every banker's friend. And everything about digital should start small, except for the ambition, of course. Small costs that come in at intervals so the business isn't at risk, small teams of experts so there's one clear plan in place and small barriers to ideas so that nothing gets lost in bureaucracy.

Building a bank isn't an internal project, it's about creating a business, something real and stable that can exist on its own and maintain independence.

We'll break down the different phases of how to build digital banking services using this mindset and approach.

Phase 0

Getting started



New services have the luxury of no existing suppliers and no parent organisation with expectations, policy documents and subject matter experts. The challenge is that they have a finite amount of funding (and therefore time) before the dream is over and they have to find a proper job.

The founder of Y Combinator (the accelerator behind Airbnb, Stripe and Coinbase) Sam Altman is famous for the quote, *“there are only two things a start-up should focus on: talking to customers and writing code”*.

This is what Phase 0 of establishing a new service is all about. Getting started, using a framework to set the project up for sustained success.

Note: this doesn't include ensuring the right stakeholders are engaged, nor that the policy owners had signed off on an approach at committee. It means find a potential customer, talk to them, understand their problems and build solutions to those problems.

You see this consistently with consumer focused fintech firms. Arguably the pioneer was Fidor Bank, but in later years Monzo, Starling and now Freetrade have all become case studies in how building a community around your product, and deeply involving them in shaping the bank, has become a critical success factor in building a product customers love so much they're going to refer all their friends.

Establishing Phase 0

Banks are big. They have a key choice: is this inside the wall or outside? Ownership structure. Governance. In a sense it almost doesn't matter, it just shapes how you execute.

Getting started: key considerations

- Domain with opportunity - where do we think customers are underserved / overcharged and can we win (week one)
- Talking to customers (Jobs to be Done (JTBD), quant and qual analysis) tells us what customer problems are worth solving and where to start
- Competitor assessment (we use 11:FS Pulse, our library of customer journeys to see what 'best in class' experiences): what is everybody else doing?
- What is the shortest way to goal?
- What are the first features that customers will love and want to use?
- Best suppliers in the IT domain, rough costings: examine new generation of suppliers that allow the service to move quickly (even if they may not scale long term)
- How can we build something quickly and get the prototype in the hands of customers, early brand applied
- Guerilla testing
- What working transaction (or similar) can we perform on the prototype as a proof point?

The prerequisite to a product alpha that you can test is to have a hypothesis about what customer problem you're setting out to solve. There are many methodologies for doing customer research but there are some key takeaways from the stories of when this has been successful.

You don't need to talk to your internal stakeholders to discover the solutions required, you need to talk to the external ones. It's common knowledge that you need to find a minimum viable product, something that will survive the market. We'll help you go a step beyond and discover the minimum loveable product, something that will thrive, because scraping by isn't real success.

At 11:FS we talk a lot about the importance of discovering customer needs through research.

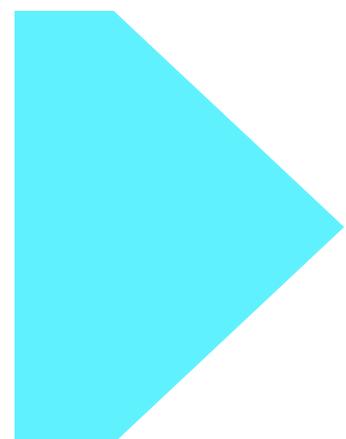
A major problem that bank teams bring to the table is they don't believe in starting from zero. Bringing bias, assumptions and 'gut feeling' to interviews with customers. Equally, they outsource the whole process to an agency, reviewing reports without any first-hand experience of really listening to and understanding customer issues.

There's no place for these things in research and it'll only damage the eventual proposition. Starting from zero matters. That humility allows us to use a research method that will uncover where the proposition needs to begin. Building a bank isn't about building on a bloated legacy foundation.

We've used Jobs to be Done as a way to build products customers will love when we worked on Mettle for Natwest, or when we helped Standard Chartered build their proposition for their **Virtual Bank in Hong Kong**. Deep, analytical, qualitative and quantitative research that tells us the overarching customer jobs to be done. It's a way to identify the progress a customer is trying to make and the problems that are holding them back.

It's like a treasure map for market opportunities.

With your treasure map, you can set about building your alpha. Ideally you'll identify in your Phase 0 some potential customers who would be happy to help you test what you build.



Phase 1

Alpha and defining what matters

You've proven you can get transactions working through it at super low volumes. How do you get 20 customers to be testers so you can move towards the beta product?

Demonstrating the success of the first 12 weeks, showing customer feedback and bringing to life something that is truly differentiated in the market is key for decision makers. Before an organisation can really get to building its first 'minimum loveable product' for customers, it absolutely needs a mandate.

- Securing the mandate and telling the story
- S curves spend a long time doing nothing
- Figuring out what the minimum loveable product (MLP) actually needs to be
- Architectural principles (build just enough to prove something can work vs building the entire stack ready for millions of users)
- Small team sport: we believe that to deliver truly digital products and services at scale, and to operate with agility, fewer people is more. Small teams with a specific set of skills get better outcomes when working on digital delivery than huge squads.

How do you achieve the principle outlined above?

- Build a working app / front end that's easy to change rapidly
- Test using the "Challenger Model" start with a prepaid provider (or similar third party infrastructure - e.g. Marqeta, Prepaid Solutions, Wirecard, Galileo)
- The team: who they are, what they're tasked with and how you attract the right talent. Keeping the team small creates a nimble, agile culture where decisions and products are made fast and at scale
- Tools, autonomy and organisation
- Governance and regulation

Challengers start by inviting in test users when the early alpha is still in development phases, often inviting local users into their office. This solves a few problems.

Firstly, if the challenger hasn't finished its automated onboarding journeys it can do onboarding of customers in person. Secondly, the early users are more likely to be from the world of start-ups and understand what's involved with using a product so early in its development cycle. Thirdly, in-person testing is so damn convenient when your user is right there in your office.

The reality of Phase 0 and the Alpha is that behind the scenes the product may be being "concierged" - meaning that many of the features appear to be digital on the app, but behind the scenes someone is keying things in or manually moving things around.

If this sounds like sacrilege "*what, where's the automation?!*", remember the problem you're trying to solve now is seeing if the proposition you are building is loved by customers. When you have 100 customers, you don't need a sophisticated CRM or chat bots to handle customer queries.

The key focus is on the core of the product. You can scale the other bits later, right now all we care about is does the product solve the problem that it set out to solve and if not how quickly can we change it?

You're looking to delight customers and prove the underlying value of the proposition. However, just because the profit isn't there yet doesn't mean that the path to profitability doesn't exist. For any of this work to be worth the investment of time, money and energy that path must always be viable.

Any alpha means taking a calculated risk. Building a banking proposition isn't easy and requires real commitment from everyone involved at all times. It's not a side project, it isn't something you can focus on for one hour a day while you take a break from business as usual.

However, if this alpha has been built using the principles outlined above, using third party technology, where the cost per unit is high but the relative set-up costs are low, then getting to alpha doesn't have to cost 'bank transformation' levels of funding. It should be much closer to 'start-up Series A' levels.

Phase 2

Beta, 1,000 users and creating a wait list

In this phase you also return to one critical question: do the things that made the Alpha fit hold true at Beta?

A handful of people are using the beta product daily. How do you scale through 100 to 1,000 customer advocates and have them really love what you're doing for them? Finding that out requires digging into whether customers love the product or just the customer service.

Assuming you have gotten the core of the product to a place where the first 100 customers are delighted with it, now is the time to build some of the key capabilities required to launch to the app store and in beta. This likely means at least partially digital onboarding and a working core product.

If Alpha is about the happy path to getting something up and running, Beta is about the unhappy paths. What happens if the payment doesn't work? What happens when a customer's money goes missing? How do they contact you? This is where having a community of advocates is super helpful.

Often the belief is that this phase is about taking 1,000 customers to 100 million. It's not. That expansion is obviously great, but staring at the numbers wishing for them to get bigger won't achieve anything. Nor will throwing features haphazardly at the proposition in the hopes something will stick. Those features won't solve customer jobs to be done or add value to the proposition.

The focus needs to be on creating a scalable experience, that requires focusing on what makes the

product work for those 1,000 customers. Do well for those 1,000 and grow.

To do this you could create an event or a series of events for customers, where they talk about their vision for the product, the problem they set out to solve and where they are in their journey. This is a great place to recruit beta testers, but also observe them using the app and build 1:1 relationships between the team and the customers. This creates a level of customer empathy that a focus group and traditional research cannot match.

By inviting future customers into a physical event and peeling back the curtain of development, something interesting is happening. The challenger is displaying a sort of transparency you never see from incumbents. You never get to see how the sausage gets made. How different is it that if you're one of the first 1,000 customers you probably are meeting the founders, engineers and early hires (all of whom double and treble as support staff for users!)?

By launching with this community the challenger has forced a selection bias of people who are happy to use beta products, and likely, whose values are

aligned with their own. They've found their first 1,000 advocates, and these people will help sign up their friends. There's a catch though, their friends must join a 'waitlist' and can't have the product yet.

This protects the product from breaking at scale, whilst the challenger identifies all of the bottlenecks the 1,000 user beta identifies.

Outside of the product work there are a number of things that need addressing in the Beta phase. Likely, in Alpha there are things that were put in place to test the proposition that now need addressing. So cleaning up tech debt, industrialising the platform and getting a release cycle and schedule in place becomes paramount.

From an operational point of view, key talent scaling now needs to be in place. Moving from one core development team to feature teams (or as we prefer 'jobs' teams), where a self sufficient unit of people attack one core customer job across research, design, product and engineering.

The job team is focused on helping customers make progress in a specific area of their financial life. They may touch multiple features on the app, or need to build new ones because this team is empowered to make these decisions with the sole purpose of getting customers from where they are now to where they want to be.

Considerations during this phase

- Building the team
- Industrialising the tech platform
- Building a release cycle
- Creating the 'jobs' teams and squads
- Building an operations and compliance capability
- Running a series of events
- Baking in the customer to growth

The overall goal of this phase is to be ready for scale, to have an app that can manage the most common unhappy paths.

Phase 3

Scaling the proposition by
engaging community



So you've got a solid user base. Word of mouth has spread among the beta population to their communities. The wait list is growing and the product is gaining traction. How do you scale out the operations, the platform and begin to identify the long term unit economics that will scale?

- Theory of constraints
- Unit economics
- Microservices and abstraction

The theory of constraints says that to improve any system the first step is identifying the most important limiting factor (i.e. constraint) that stands in the way of achieving a goal and then systematically improving that constraint until it is no longer the limiting factor. During the build out phase for a start-up, the goal is to experiment in a number of ways to identify a constraint, measure its impact and then experiment further to see what removes that constraint. This could be:

Phase 3 focus

- Automating onboarding
- Creating FAQs
- Fixing tech debt
- Fixing a part of a journey where there is drop off
- Building the capability to A/B test propositions
- Building analytics feedback loops for the product

Over time many of the third party platforms that helped start-ups build quickly may not scale well with desired/expected transaction volumes.

For instance, running a prepaid card scheme can get expensive when you're in the hundreds of thousands of customers. By this scale one of the larger constraints becomes cost, so evaluating suppliers at this stage and guarding against that cost burden becomes vital.

To achieve this, we believe it's key to 'abstract' away the core customer offering from the underlying tech providers. The front end user experience should not be welded to any back end tech platform or

capability, but rather created in such a way that it can exist almost independently of the underlying general ledger or accounting platform.

This means that when the time comes, the new challenger bank, or service, can run the new and the old system side by side without interruption to service. The challenger bank could even identify a select group of test users and accounts running in production that would use the new underlying general ledger or platform (assuming that platform was capable of running in such a way).

By running the services side by side, challengers avoid the messy 'cut over' and big bang migrations that have led to so many digital transformation nightmares and negative press. By starting with the customer, and ensuring the customer products and services can run independent of an underlying general ledger or payment system, challengers have a competitive advantage and the ability to upgrade their live service that would have been impossible pre-microservices.

This is why many incumbents are seeing challengers as a strategic imperative, a way to build the new strategic platform for their organisation, without impacting their core business.

But what about the community and the customers?

What if you already have a community and customers? How do you engage them more effectively?

One question we keep being asked is some variant of "but how are the challenger banks scaling?" and "how do they make the communities work?".

If the 1,000 users have helped to build the wait list,

we often see challengers begin to curate their community with forums. Monzo is rightly held up as the example of this and today its community is a thriving conversation about all facets of financial services. On the flipside of this the other major UK challenger, Starling, closed its community with very little explanation as to why.

To see a live example of an early-stage challenger, Freetrade has a very active community that is currently scaling to tens of thousands of users. The users are aligned around a subject - in this case, buying shares and investing.

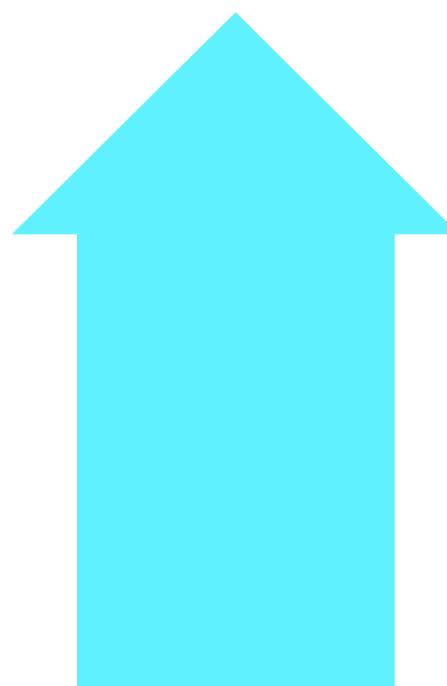
You'll see the staff of the challenger on these forums responding to user questions, showing early design concepts and publishing their roadmaps. What worked at the in-person meetups also works online. As the platform grows, the challenger progressively adds more digital customer support, community managers and looks to automate the manual processes (in order of what is creaking the loudest and is therefore highest priority).

Some of the early tools gradually get replaced for more mature tools and increasingly the challenger puts in place their own platforms and capabilities in place of vendors and third parties. Building things knowing they won't scale is not a waste of time as it has served its purpose up to that point and is often an inevitable part of scaling.

Quite often we've seen the challengers start, for example, with a prepaid card and migrate to their own core banking platform in time (precisely how this is done is a subject for another time). The takeaway here is the concept. Scale the platform as the product scales not before.

There are plenty who make it to this stage, but the difference between good and great is those who can keep up the momentum and growth rate day after day, week after week while keeping the referral rates high.

Never losing the ability to listen, change and be truly customer driven is critical.



Conclusion:

Building your bank



With no technical/product/process debt or culture to bog them down, start-ups have moved quickly and acted decisively. Working with new technology in small, project-oriented teams, they've launched low-cost, bare-bones products and adjusted them within days or weeks based on customer feedback. This has given them an agility incumbents didn't have, resulting in a significant first-mover advantage.

This is absolutely an approach that can be copied, but only if, like the challengers themselves, you can be truly customer-driven. This means empowered teams that are truly multi-skilled. Digital is a small team sport. Like a team sport, everyone has a 'position', but they fill in for others and need a broad set of skills to be world class.

Attracting the talent who can work this way, who can build governance as they go, who have experience working in the world of start-ups but deeply understand finance is a key challenge. Finding a partner who can work with an incumbent, attract the talent and has a track record of delivery is also challenging.

The arrival of the challenger banks has triggered a wave of activity in incumbents. Whether it's Nationwide building new infrastructure for their SME banking by partnering with ClearBank, NatWest

building Mettle, ING building Yolt, or DNB using 11:FS Foundry to re-architect their lending, the cycle of the same old processes, same old suppliers, same old results is being broken.

In the US, incumbents have been slower to react to the growth of digitally native challengers such as Chime, Qapital and others. Where they have, for example, when Goldman Sachs launched Marcus, the immediate reaction was "This isn't new, it's just buying customers with a big savings rate".

But that missed the point. Marcus by Goldman was completely greenfield. The brand had evolved for consumers, the banking and data knowledge Goldman had built for generations was baked in but it was entirely new. And look at the numbers: \$5 billion in loan balances, more than \$50 billion in deposits and four million customers.

At 11:FS when we've built digital challengers, we've done so with organisations who buy into this approach and who have the mandate to allow their own challenger to be truly empowered to succeed.

It isn't easy. But it is achievable.

If you're looking to build a truly digital bank or service, get in touch.



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