

# Orange, Telefónica and Telenor see opportunities in digital banking in Europe, but face strong competition

July 2017

Enrique Velasco-Castillo

Operators' low-cost approaches in high-income countries to mobile financial services (MFS) – such as mobile wallets or person-to-person (P2P) payments – have mostly met with failure. Competition from banks and services such as Apple Pay have caused operator initiatives to stall. However, some operators refuse to quit, and are redoubling their efforts by launching digital banks. Digital banking presents an attractive, albeit risky, option for operators that have the appetite to compete against incumbent and new challenger banks.

## Despite the challenges, MFS remains an area of strategic importance as operators launch digital banking initiatives

Rapid smartphone adoption and lower barriers to entry for challenger banks in Europe (due to regulatory changes) have spurred the emergence of new players in the banking sector. New digital banks that have launched in recent years include Atom, Monese, Monzo, Osper, Starling, and Revolut in the UK; N26 in Germany; Gobank, Moven and Simple in the USA; and Root in South Africa (see Figure 1).

Orange, Telefónica and Telenor are taking advantage of these new regulatory conditions by offering their own digital banking services. Their approaches differ, but range from mobile banking apps that use a third-party bank's white-labelled platform (as Telefónica O2 is doing in Germany) to investing in becoming a full-fledged digital bank; an approach favoured by Orange in France.

**Figure 1: Examples of new digital banking services**

Company	Key features
Orange	The launch of Orange Bank was announced in France on 20 April 2017. This initiative stems from Orange's acquisition of a 65% stake in Groupama Banque in April 2016. Orange aims to turn 2 million (~7%) of its subscribers in France into banking customers and generate EUR400 million in revenue by 2018.
Telefónica	Telefónica Germany launched the O2 Banking app in July 2016. Early adopters received 2GB of free data, and ongoing usage is encouraged with additional data allowances (up to 500MB for O2 subscribers). In Spain, Telefónica launched Movistar Money in June 2017, a consumer credit service that builds on the Telefónica Consumer Finance (TCF) joint venture with CaixaBank Group. Movistar Money provides pre-approved loans (EUR600 to EUR3000) to Movistar subscribers that have acquired handsets through TCF.
Telenor	Telenor Serbia launched mobile bank Telenor Banka in September 2014. According to Telenor, 200 000 accounts had been opened as of 2016, representing approximately 7% of Telenor's mobile subscriber base in Serbia. Telenor Banka has its origins in the acquisition by the operator of KBC Banka in 2013.

N26	Founded in Germany in 2013, N26 was granted its European banking license in 2016. Its banking services are available in 17 countries in the region. Accounts can be opened via video chat through identity verification partner Iknow. Loans up to EUR25 000 can be approved from its mobile app for customers in Germany. The company reported that it had 300 000 subscribers for this service as of March 2017.
Venmo	Founded in the USA in 2009 and acquired by Braintree in 2012; the latter was acquired by PayPal in 2013. Venmo's total payments volume (TPV) for 4Q 2016 was USD5.6 billion – a 126% increase from 4Q 2015. <sup>1</sup>
Monese	The company was founded in the UK in 2013, and the product was launched in 2015. It is aimed at European expats who want to open a current account in the UK. New customers can sign up through video calling with the bank's representatives.
Simple	Founded in the USA in 2009 and acquired by Spanish banking group BBVA in 2014. The service includes a basic checking account and debit card using infrastructure from partner banks Bancorp and BBVA Compass.
Monzo	Founded in the UK in 2015, Monzo has raised much of its funding from private individuals through 'crowdfunding': GBP1 million in 96 seconds in 2016, and an additional GBP2.5 million in March 2017. Orange Digital Ventures also invested in Monzo in March 2017. Monzo's prepaid debit card account had 240 000 users as of February 2017. The company expects to roll out current accounts in the second half of 2017.

## Digital banks, both old and new, will increase competition in the market – operators should heed lessons from their launches

Operators' digital banking propositions face strong competition in Europe. In addition to new entrants, incumbent banks have also launched mobile-first banking services with various degrees of success. In 2013, BNP Paribas launched Hello Bank – an online bank that is active in Austria, Belgium, France, Germany (operating as Consors Bank) and Italy. As a response to Orange Bank's imminent launch in France, BNP Paribas acquired low-cost, branchless banking services provider Compte-Nickel in April 2017.

Not all mobile-only experiments by banks have succeeded. For example, Soon Banque, an AXA Banque-offshoot launched in France in 2014, was closed in June 2017 after only 30 000 accounts had been opened.

To compete successfully, operators should consider the following lessons from emerging players.

- **Security is paramount (and difficult to get right).** N26 was embroiled in controversy in December 2016 after a researcher reported serious vulnerabilities.<sup>2</sup> Operators should ensure that they can prevent, respond and mitigate cyber-attacks. Financial, regulatory and reputational risk is high and mobile banking opens new attack vectors that operators need to address by using, for example, risk-based authentication (RBA).
- **Venmo is essentially a social network that is centred on payments, making its usage sticky.** Venmo simplifies bill sharing with social features that include messaging (complete with emojis), or a payment 'news feed'.

<sup>1</sup> Paypal (26 January 2017), *PayPal Reports Fourth Quarter and Full Year 2016 Results*. Available at: <https://investor.paypal-corp.com/releasedetail.cfm?releaseid=1009339>.

<sup>2</sup> The security issues were reported by the researchers to N26 on 25 September 2016. All the vulnerabilities reported had been fixed as of 13 December 2016. For more information, see the technical report on N26's security issues, *Shut Up and Take My Money: The Red Pill of N26 Security*, by Vincent Hauper, a fellow at the Security Research Group, Department of Computer Science, Erlangen University. Available at: <https://www1.informatik.uni-erlangen.de/content/n26>.

- **Focus on the needs of a niche segment to differentiate.** Monese targets new migrants to the UK who may not yet have the documentation to open a bank account (such as proof-of-address). Affordable money transfers to Eastern European countries complements this approach.
- **Partnerships reduce time-to-market but may also create uncertainties – operators need to choose their partners carefully.** In July 2017, customers of UK mobile banks Monzo, Starling and others suffered a severe service disruption, apparently due to their common payments processing partner. After a similar outage in March 2017, Monzo vowed to move payments processing in-house, but this will take time. Although early adopters may be more forgiving of glitches, mainstream users expect their banks to function flawlessly.
- **Behavioural features (such as budget goals) can make for highly engaged customers.** The attractive design and ease-of-use of its mobile app helped Simple to acquire a loyal user base that reached 100 000 customers nearly 5 years after being founded.

For a more-detailed discussion of the mobile banking initiatives for Orange, Telefónica and Telenor, see Analysys Mason's *Digital banking operator case studies: Orange, Telefónica and Telenor*. Available at: [www.analysismason.com/operators-digital-banking-RDMY0/](http://www.analysismason.com/operators-digital-banking-RDMY0/).