

REVOLUT

Strategy teardown

Can Revolut become
the Amazon of banking?



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Editorial

New technologies have triggered a structural shift in the financial services sector. Fast-moving new challenger banks are leveraging technology to offer clients cheaper, convenient and more transparent services. In this way, these new entrants are reshaping the pace of innovation across all parts of the value chain in financial services. However, most new entrants have not been able to establish themselves as sizable players. Many overestimated customers' willingness to switch away from incumbents; others underestimated the high and increasing costs of customer acquisitions.

The Revolut story is different. The challenger bank is attracting around 10'000 new clients per day, and has already built a client base of over 3 million users – all in just over 3 years and without any large marketing spend. The company has achieved this by

disrupting the lucrative international transactions market. Revolut saves clients up to 6% of their purchases in foreign currencies, because it offers clients access to the spot rates for foreign exchange transactions and charges them zero for transfers.

Looking ahead, the firm is set to expand its product offering and has already started its global expansion. In Switzerland, the company has already applied for a Swiss IBAN, and could therefore soon be competing directly with local retail incumbents for the loyalty of their prized Swiss clients.

It is in this context that we are delighted to host Revolut in Zurich on November 26th. This strategy teardown report is intended to offer Swiss business transformers a unique introduction to Revolut's business strategy. We hope you enjoy the read.

Yours Sincerely,



Prof. Dr. Ernst Mohr

President of the Strategic Steering Committee, Redesigning Financial Services University of St. Gallen



Olaf Toepfer

Partner, EY



Robert Ruttmann

Founder of Redesigning Financial Services

The Revolut offering in short

- Spend abroad with no fees in over **130 currencies** with a contactless MasterCard or Visa
- Hold and exchange **25 currencies** at spot rates in the app
- Free domestic and international money transfers
- CHF 200 per month of free international ATM **withdrawals** with a 2% fee thereafter
- Instant spending notifications, spending categorisation and budgeting controls
- Enhanced security with instant and free function to enable and disable the card
- Short-term device-, travel- and medical insurance
- Instant credit to your account in **2 minutes** worldwide

Launched

3 years
ago

500+
employees

3m
B2C customers

60'000
registered businesses

USD 3bn
transaction volume
per month

Introduction



Introduction

Revolut is causing a stir in the financial services community. The digital challenger bank launched in July 2015 with a bold mission: to turn the financial services sector on its head. To achieve this, Revolut focused first on disrupting the lucrative international transactions market by removing the hefty hidden fees clients have traditionally paid on any international transactions.

Today bank clients still pay their banks **3%-6%** in fees for their foreign transactions. These fees are made up of a small (but transparent) transaction fee, but also of a larger (but hidden) spread between the spot exchange rate and the rate offered by the provider. Revolut has disrupted this space by offering a frictionless payment platform that cuts hidden fees and offers interbank currency rates in **150 currencies**. In short, Revolut's goal is to act as a banking alternative to people and businesses.

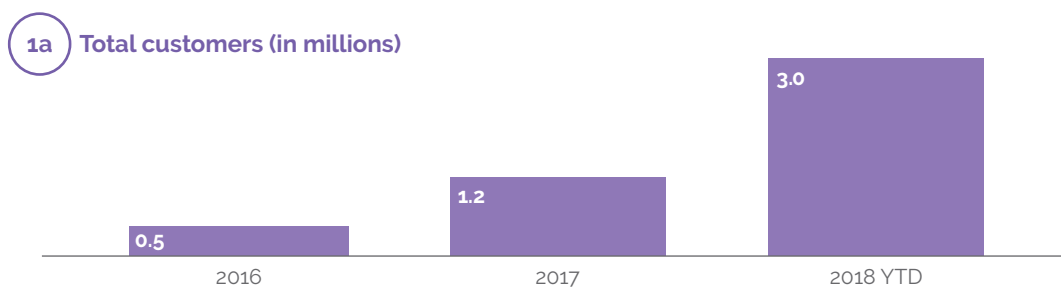
Describing his motivation to found Revolut, CEO Nikolay Storonsky said:

"I thought of the business three years ago. I was traveling a lot and wasting hundreds of pounds on foreign transaction fees and exchange rate commissions which just didn't feel right. As someone with a financial background I knew exactly the rates I should be getting. As a solution, I tried to find a multi-currency card and was later told it wasn't possible. But I was determined to make it work."

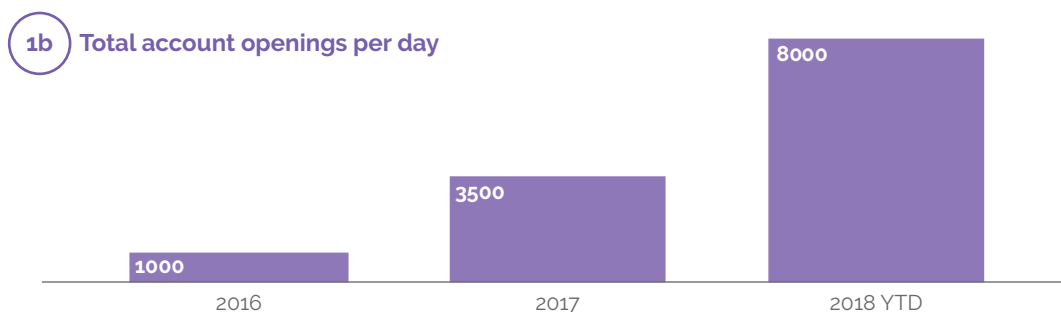
Impressive customer growth

Storonsky's determination seems to be paying off. In November 2018, Revolut announced that the firm had acquired its 3 millionth client – in just over three years (see chart 1a). The accelerating momentum of this client acquisition trend is noteworthy.

Just two years ago, customer numbers were at 450'000, with 1'000 new accounts being opened every day. Two years later, the customer base is at 3 million clients, with **8'000** new accounts being opened every day of the calendar year, on average (see chart 1b).



Source: Revolut, Redesigning Financial Services.



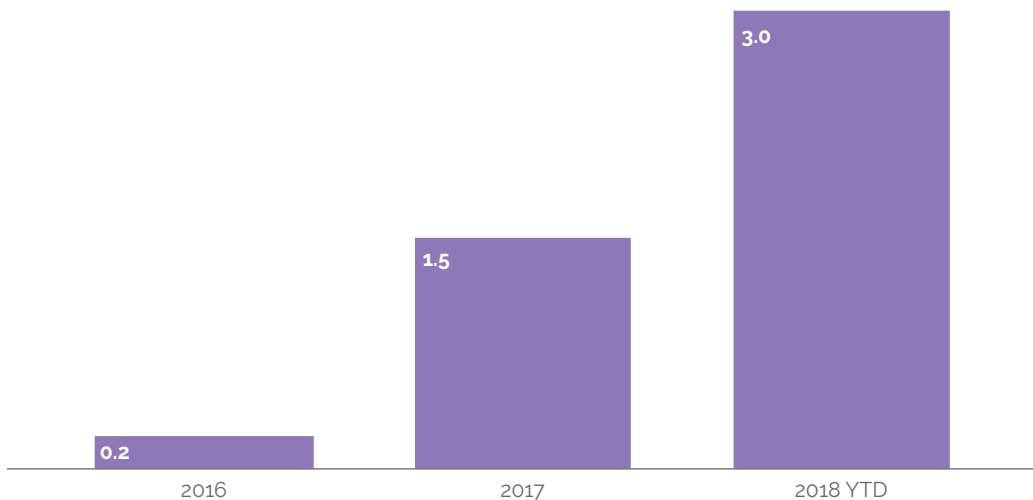
Source: Revolut, Redesigning Financial Services.

Accelerating transaction volumes

Revolut has also reported large spikes in the amount of money being spent and transferred through the platform. Within 2017, total monthly transaction volumes increased by over **700%** from just CHF 200m per month to CHF 1.5bn per month at the end of 2017. Today, monthly transaction volumes have doubled again and currently stand at **CHF 3bn** per month, on average (see chart 2).

Since introducing new analytical features such as budgeting controls, savings vaults and recurring payments, Revolut has seen its daily active users spike to 350,000, and plans to onboard no less than 100 million over the next five years. This increased engagement is also having a positive effect on the firm's financials.

2 Monthly transaction volume (USD billions)



Source: Revolut, Redesigning Financial Services.

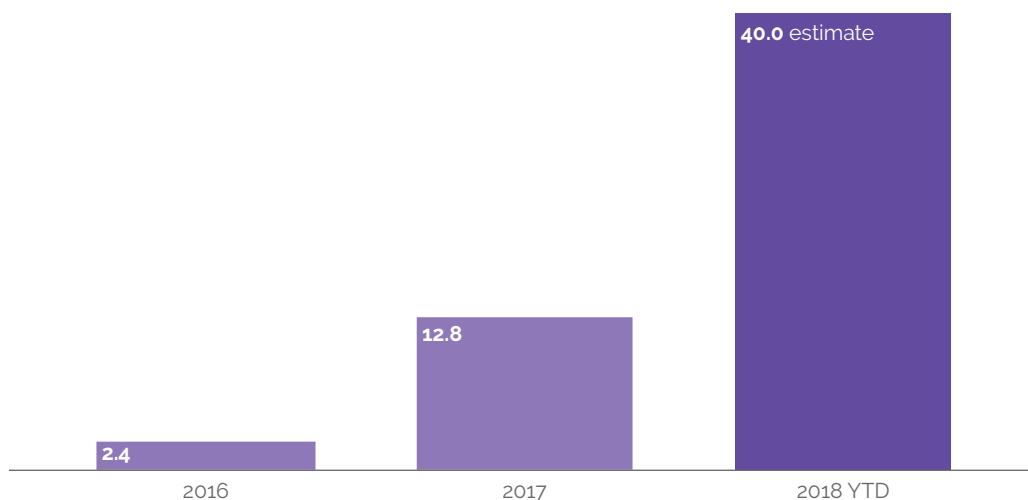
Growing revenues

Driven by this tremendous user and transaction growth, Revolut's sales growth has also kept pace. By the end of 2017, sales had grown by 400% year-on-year to reach **GBP 12.8m** in December 2017 (see chart 3).

Moreover, December 2017 was also the month during which Revolut reported its first profit – the first of any digital banking start-up.

Looking ahead, the positive growth momentum is likely to continue, as users continue to flock to the CHF 6.99 per month premium tier, and as the firm continues to roll out new services like the super-premium metal cards (for which the author is in number 64'141 in the waiting list). We estimate Revolut to make GBP 40m in sales in 2018.

3 Revenues (GBP millions)

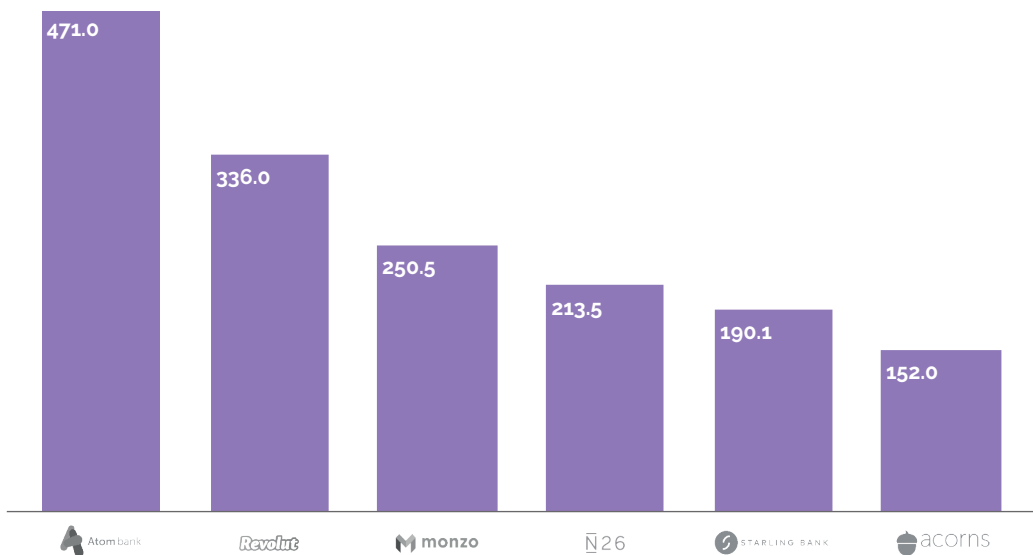


Source: Revolut, Redesigning Financial Services.

Competition increasingly marginalized

Revolut faces stiff competition from the likes of TransferWise, Monzo, or N26. And although their offerings are comparable to some extent (see chart 4), a key difference is that Revolut continues to position itself as a go-to-platform for financial services in a global context, while its competitors mostly have a local scope. It is for this reason that Revolut is attracting new clients much faster than any of its challenger bank competitors. As such, its current customer base is ahead of its competitors' one (see chart 5).

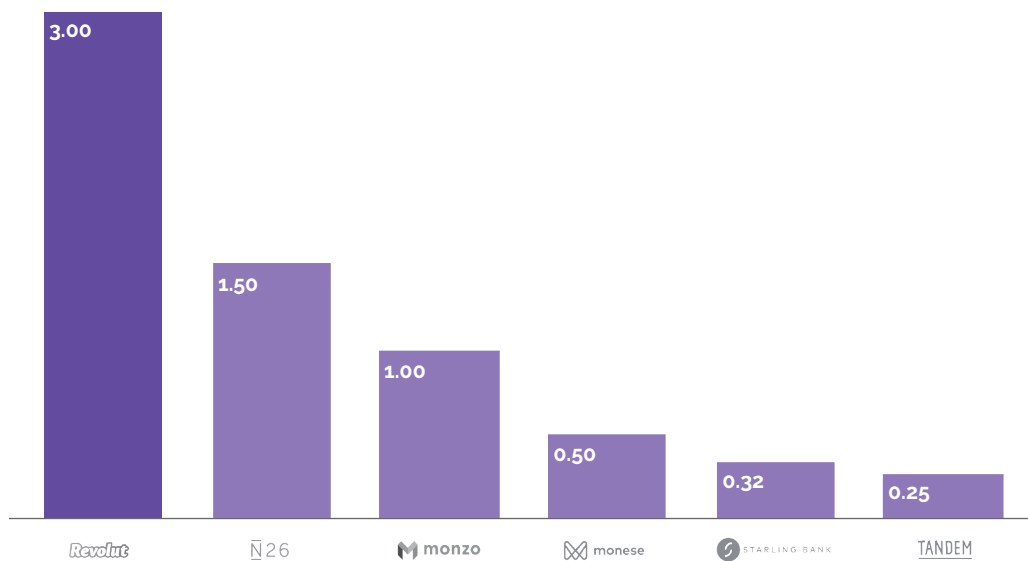
4 Total funding comparison (USD millions)



Source: Company websites, Capital IQ, TechCrunch, Redesigning Financial Services.

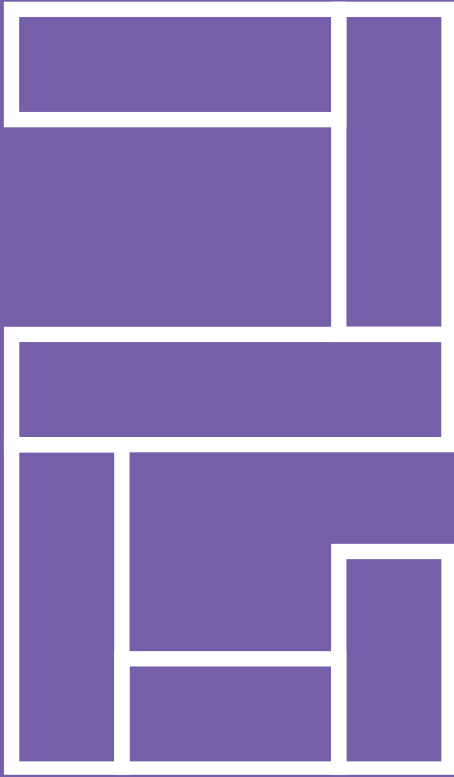
But competition is not limited to challenger and incumbent banks. According to Revolut's CEO Storonsky, the biggest competitive threat is set to emerge from tech giants like Apple, Amazon, Facebook and Google, since they have the customer data, capital and the employees to easily break into the banking space. It is also for this reason why Revolut is launching so many new services in addition to its original travel card functionality.

5 Customer comparison (in millions)



Source: Company websites, Redesigning Financial Services.

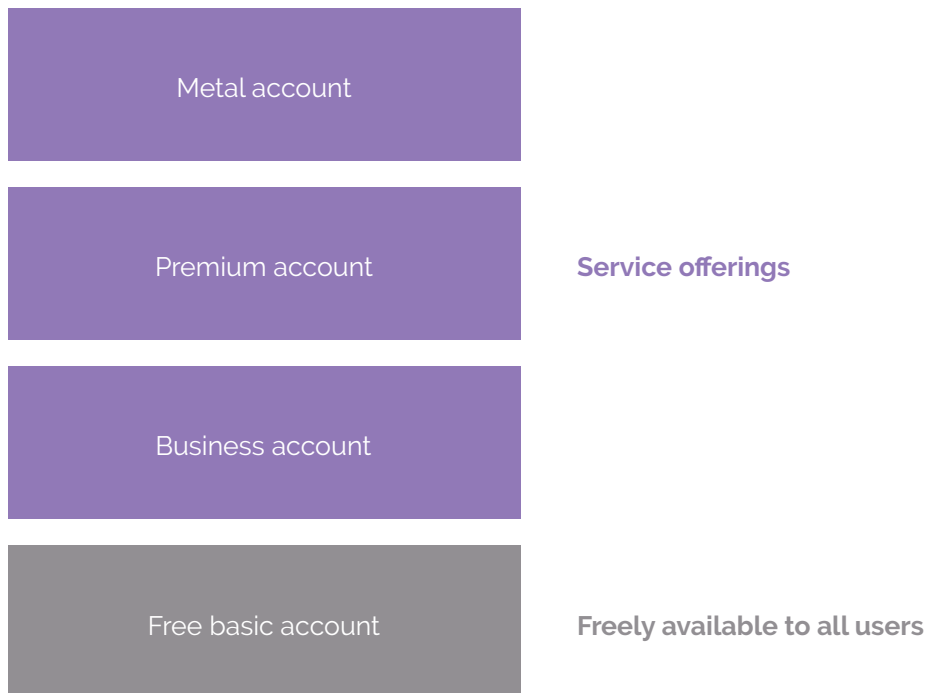
Business model logic



Business model logic

Revolut employs a **freemium model**, by which the firm offers clients a free basic account offering currency exchange at the live currency conversion (spot) rate. In line with this freemium strategy, clients can opt to pay for additional services like premium offering, a metal card (with cash back), business accounts, and many variations (see chart 6). This model has also allowed the company to grow at such tremendous rates without spending any money on marketing, relying instead on referrals.

6 Revolut's freemium model



This strategy seems to be working well. Although most customers start off using the Revolut prepaid card as a way to save costs while traveling, more and more customers are using Revolut as their daily spending card. It is also in this context, that the firm is looking to significantly expand its services to include offerings like:



Current accounts



Cashback



Crypto-trading



Travel insurance



Phone insurance



Euro direct debits



Business accounts



Wealthy management



Airport lounge access



Concierge service



Retail discounts

CEO Storonsky summarizes this business logic best:

“We’re trying to build a 10x better financial services company that is 10x cheaper as well...the only way to do it is not building only one product, but building a platform with a lot of products on top of it.”

This multi-product platform is part of Soronsky's goal of building "one of the biggest financial services companies in the world."

Building products in-house

Revolut's strategy flatly rejects the marketplace banking model. This model promises a future in which our financial lives are spread across dozens of companies, big and small, offering mortgages, insurance and investments that are cheaper and smarter because of open financial data. Instead, Revolut's strategy to build the best products in-house goes against the grain of conventional wisdom. Indeed, to many in the fintech community, the Revolut strategy sounds like the antithesis of how the future of finance was supposed to pan out.

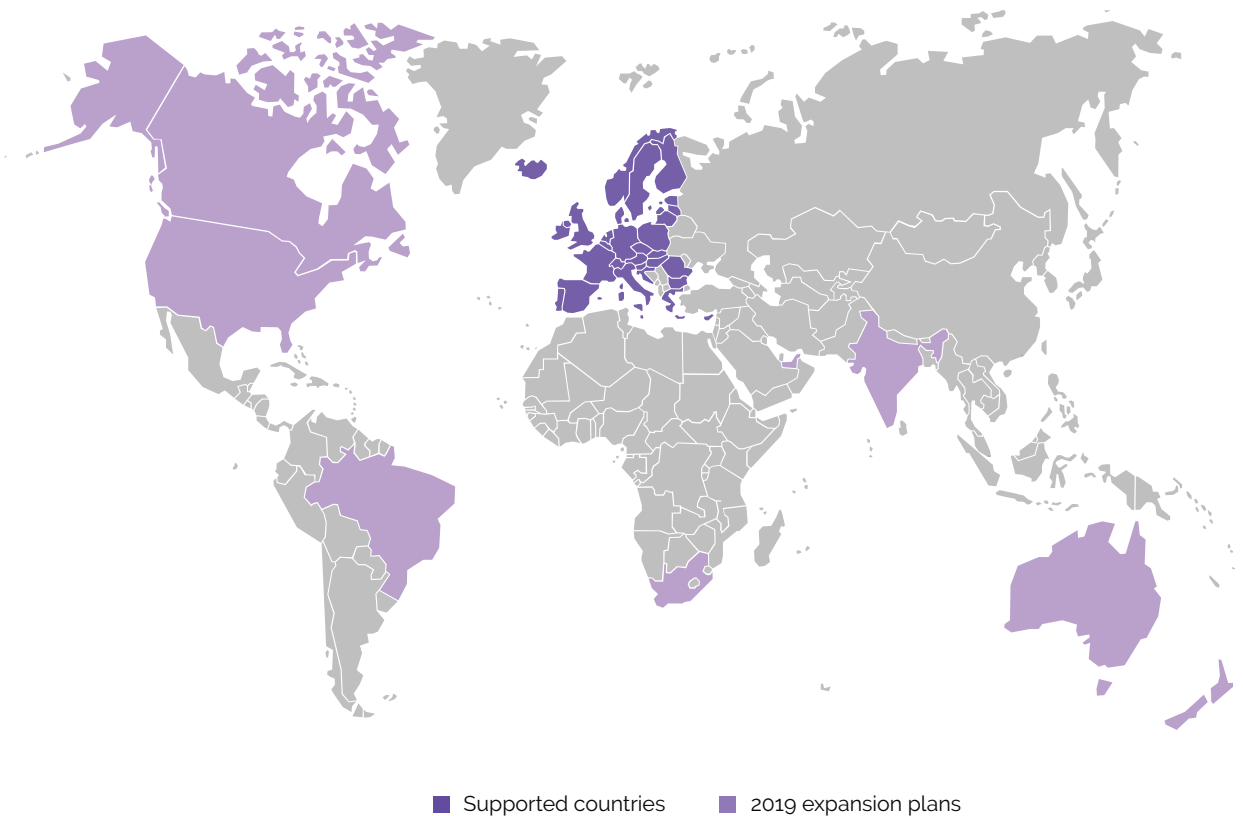
To this end, Storonsky has criticized the existing marketplaces or comparison sites, saying, "It's not convenient to offer tens of products and let people choose. ... I just want to click a button and know that the product I'm using is the best." Storonsky goes on to say:

"In this industry, if you're trading shares why would you want two or three providers? Insurance is the same, it's a commodity, it makes sense to be not like a marketplace, but just providing the best product in every category."

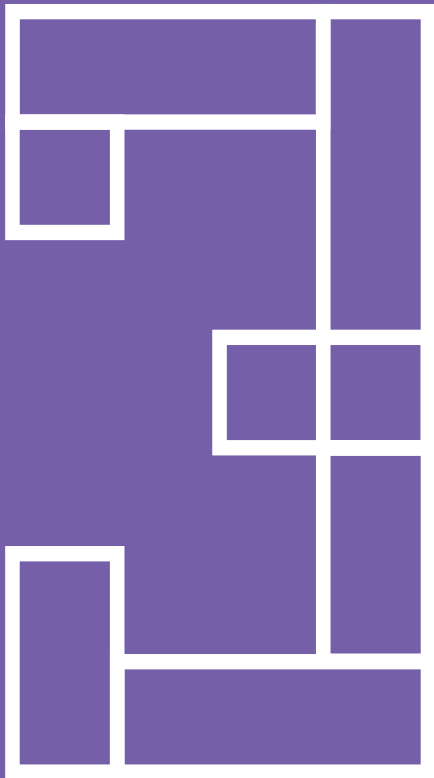
Revolut's goal is to be present in as many countries as possible with a full offering, including business lending, retail lending, trading, investments, and wealth management.

Geographic expansion

Revolut is currently available across Europe. Strong growth in countries like France, Germany and Switzerland and the Nordic region continue to drive up its user base considerably. The firm is looking to expand its presence to the U.S., Canada, Singapore, Hong Kong, South Africa, India, Brazil, the United Arab Emirates, Australia and New Zealand within months.

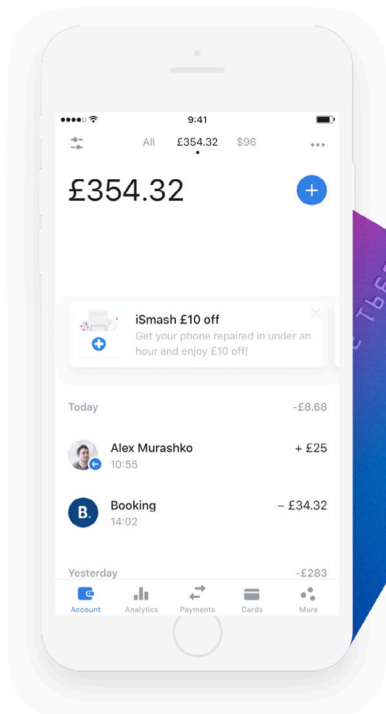


Revolut's product strategy suite



Revolut's product strategy suite

The offering started with a travel card for global travelers at zero cost, offering currency exchange at interbank rates, the option to instantly transfer funds at no fees, and to withdraw funds at automatic teller machines (ATM) at zero fees and at spot rates in over 150 currencies.



Exchange

Interbank rates



Send & Request

Instant transfers
Zero fees



Spend

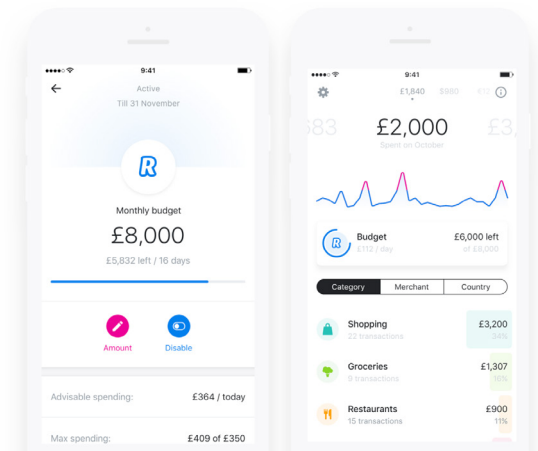
0% FX mark up
Zero fees
ATM withdrawals

Since then, several service offerings have been added, including:

1

Spending analytics and budgeting control

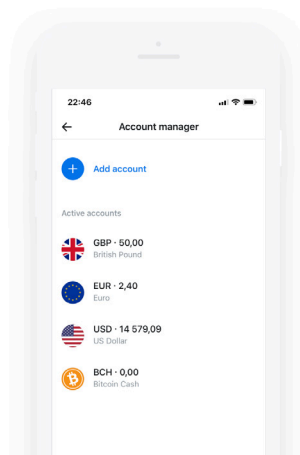
Revolut is offering its users budgeting control- and spending analytical tools.



2

Current accounts

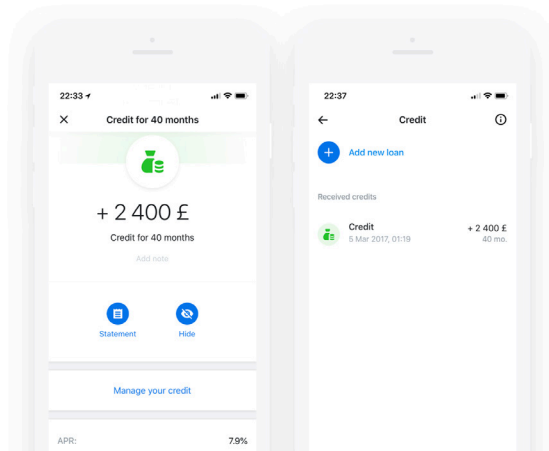
Current accounts or unique bank accounts with GBP and EUR IBANS allow users to use Revolut to substitute their incumbent bank. Other IBANS (including CHF) should be announced shortly.



3

Credit facilities

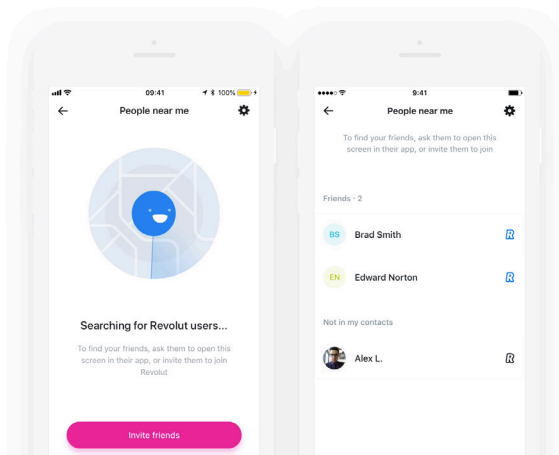
New credit facilities will allow clients to get access to instant credit, with an average annual percentage rate of 9.9% (vs. 20% for conventional credit cards). Moreover, the peer-to-peer lending facility is 50% cheaper than benchmark rates at banks, according to the company.



4

Pay-near-me functionality

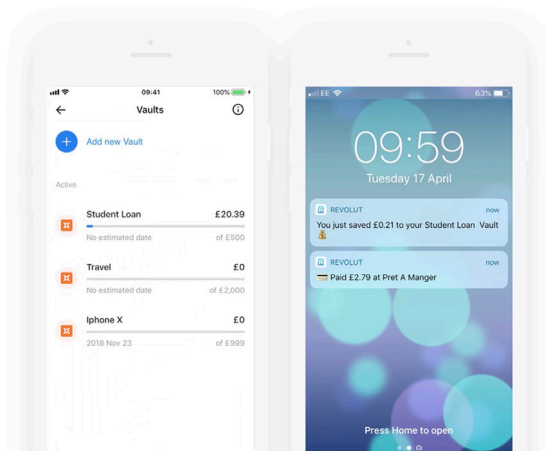
This functionality allows friends to split dinner bills easily and instantly using location based payments. With this feature users no longer need to exchange bank details, or even phone numbers. All they need to do is open the app.



5

Saving features

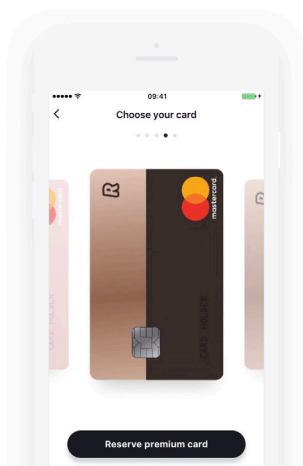
The saving feature called Vault allow users to round up every card payment to the nearest whole number, and save spare change (as pioneered by Acorns). This saving feature is possible in any of 24 fiat currencies and 5 cryptocurrencies.



6

Premium account

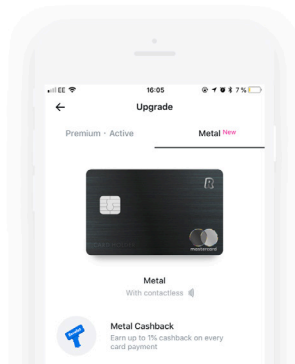
The premium account offers unlimited free foreign exchange transactions (vs. standard exchange rate plus 0.5% above CHF 6000 in a given month for the freemium model), a free card, free travel insurance, double free ATM limits, and a host of special offers.



7

Revolut Metal

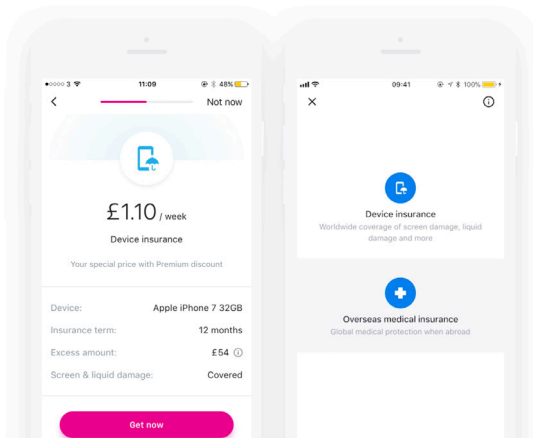
This service was recently revealed as a superpremium, which comes in at CHF 15.99 a month. Revolut Metal offers cash back on card purchases, a personal concierge for booking tickets, worldwide travel insurance covering health and flights, and a higher CHF 600 limit on free global ATM withdrawals per month, along with all of Revolut's existing Premium features.



8

Worldwide travel and device insurance

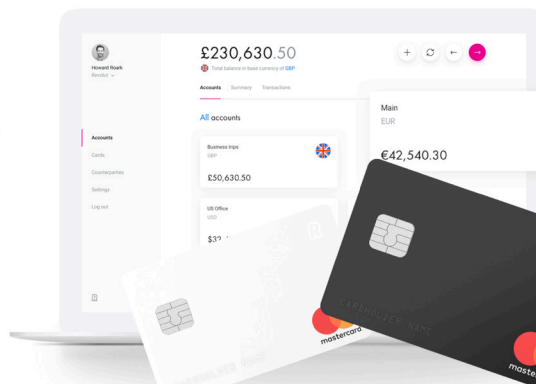
This service allows users to insure their phones against accidental damage for just GBP 1/week. Global travel insurance, covering health, dental, flight and luggage delays, for just GBP 1 per day.



9

Revolut for business

This service already has **60'000** businesses subscribers. The open API allows users to integrate their existing business software and processes to simplify one's work processes, like automating business payments, managing realtime Slack notifications for the events occurring in ones Revolut for Business account.



10

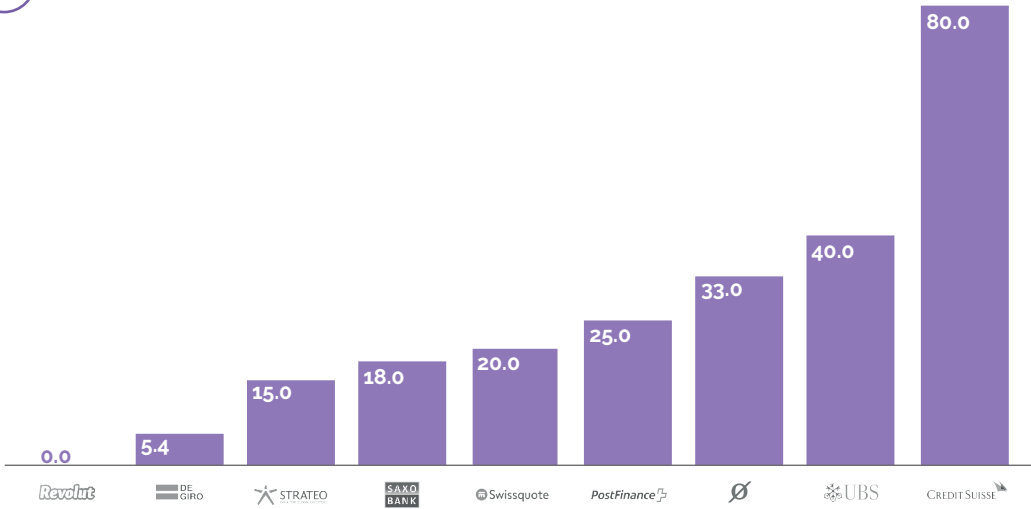
Revolut Wealth

The "Wealth" trading platform will offer users commission-free trading in a range of publicly listed firms, in addition to other instruments including exchange-traded funds (ETFs) and options. This commission-free trading service would compete directly with the likes of the U.K.'s Trading212 and U.S. firm Robinhood. Storonsky has stated that:

„For many years, people have felt frozen out of trading by high fees and clunky interfaces, so Revolut is aiming to make investments cheap, simple and completely mobile.”

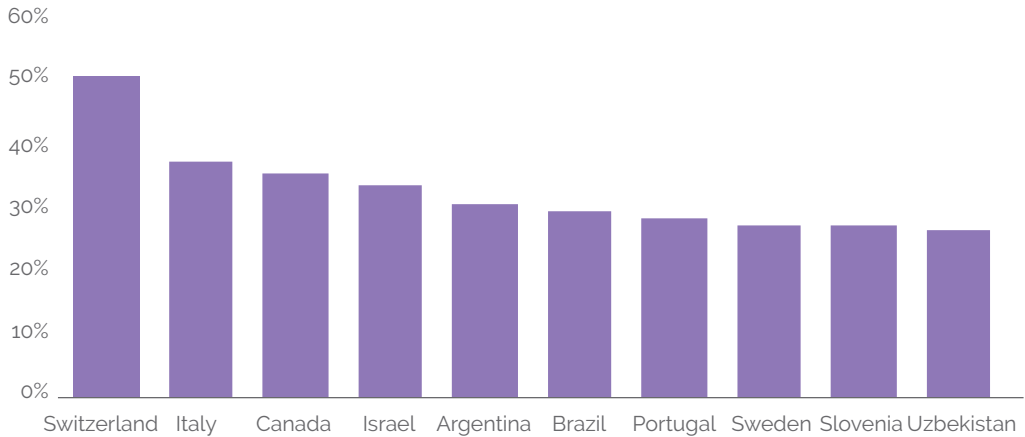
Indeed, conventional Swiss brokerages have fees as high as CHF 80 per trade (see chart 7), which makes this space increasingly ripe for disruption – especially in Switzerland. According to Moody's, a rating agency, Switzerland has the highest trading fees in the world, with incumbents generating nearly half of their total sales from fees and commissions (see chart 8).

7 Transaction costs for trading Swiss stocks worth CHF 1'000



Source: CBInsights, Redesigning Financial Services.

8 The highest fees and commissions (as a % of sales) in the world



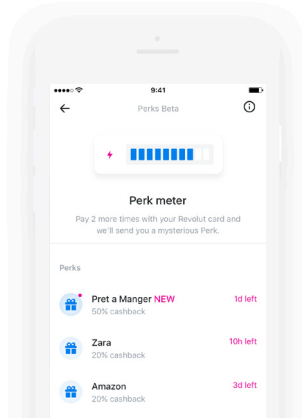
Source: Moody's Investor Service.

This data suggests that Switzerland may be particularly vulnerable to new technologies (like Blockchain) or New Entrants (like Revolut) that reduce cross-border payments processing costs and times significantly (i.e. transactions costs for Revolut are zero).

11

Perks

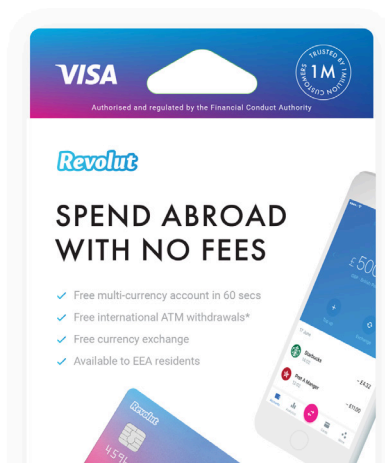
The company is build up an ecosystem of reward partners. Rewards go to the most active users via partnerships with well-known brands like Uber and Deliveroo. Airport lounge access at wholesale rates is another perk for premium users.



12

Retailer rewards

Revolut will be offering retailers 10c savings relative to benchmark cards, including zero chargeback fees. As such, retailers and distribution networks across Europe could soon be heavily promoting and even selling Revolut cards in stores.





0:41
All £354.32 \$96

£354.32

iSmash £10 off
Get your phone repaired in under an hour and enjoy £10 off!

Today

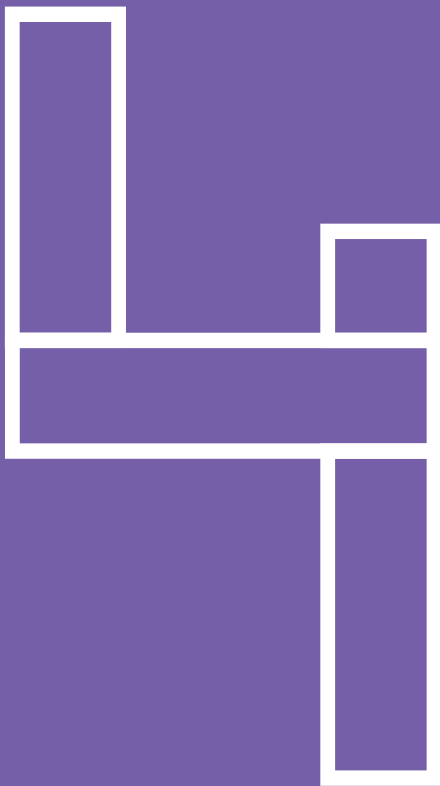
- Alex Murashko** 10:55 -£8.68
- +** £25
- B Booking** 14:02 -£34.32

Yesterday

-£283

- Account
- Analytics
- Payments
- Cards
- More

Funding & valuation

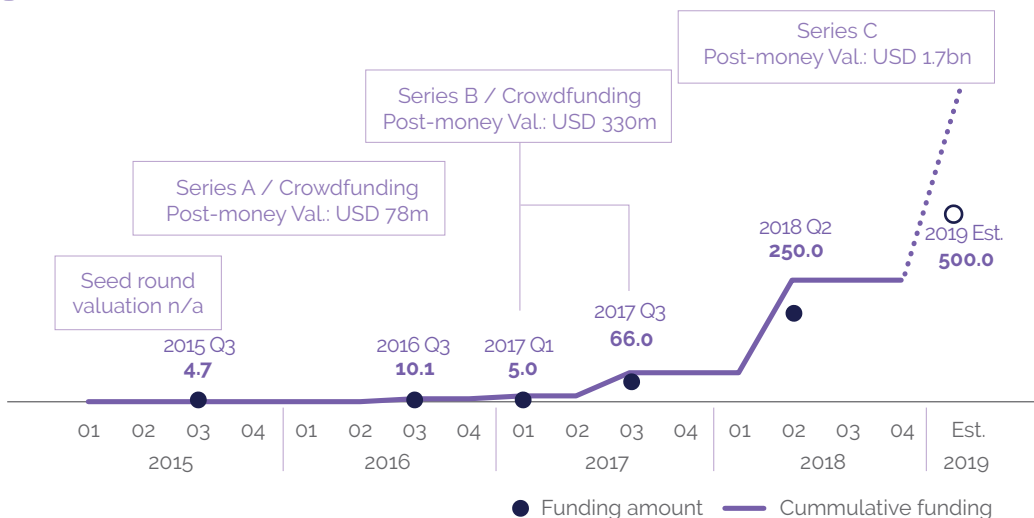


Funding & valuation

Since its incorporation, Revolut has raised a total of USD 336m from some of the most notable investors including DST Global, Index Ventures, Balderton Capital and Ribbit Capital. Its last funding round (Series C round) was in Spring 2018 when the company raised a total of USD 250m at a post-money valuation of USD 1.7bn. With this round, Revolut entered the exclusive round of fintech unicorns (private company valuation at USD 1bn).

This development is even more impressive when looking at the time in which the company reached unicorn status: Only three years ago, the company raised around USD 5m in a seed round. One year later, the company raised USD 10m in its Series A round at a post-money valuation of USD 78m. Another year later, the valuation of the company climbed already to an astonishing **USD 330m** with its Series B rounds. According to latest news, Revolut is currently in talks with Japanese Softbank to raise up to **USD 500m** in another funding round (see Chart 9).

9 Revolut's funding and valuation history (USD millions)



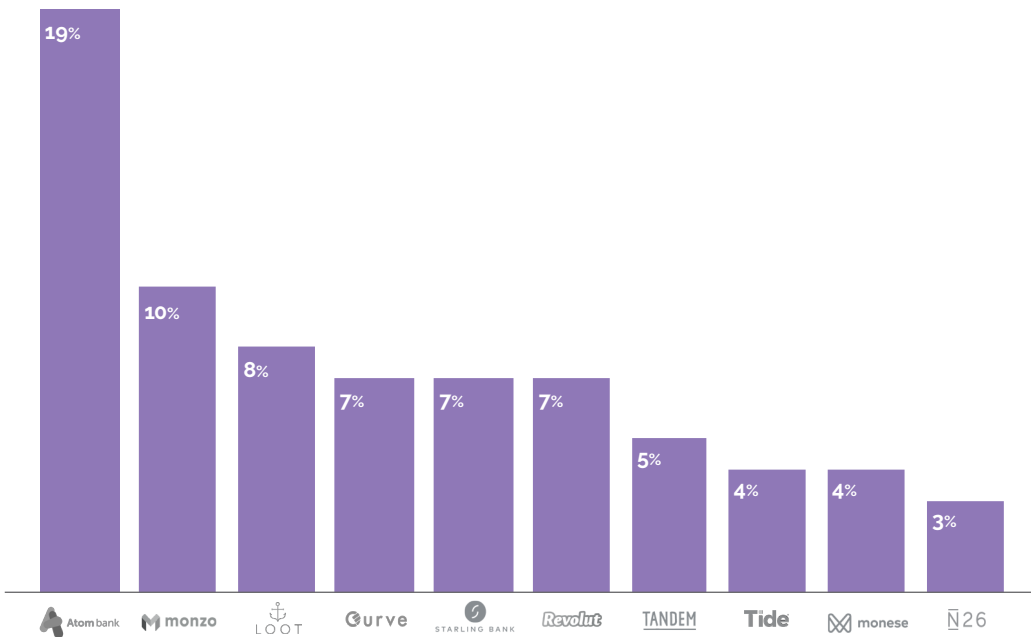
Source: Capital IQ, Business Insider, Redesigning Financial Services.

Outlook

Outlook

Fintechs like Revolut are fundamentally changing the way by which financial services are consumed across almost every subsector of financial services. And despite Revolut's recent success, most customers are not even aware of the firm's existence as illustrated in the indicative chart below for the UK (see chart 10).

10 Customer awareness of Neobanks in the UK (in %)



Source: Business Insider Intelligence, Redesigning Financial Services.

Winning the battle for the customer interface

To succeed in the long-term, Revolut will have to position itself as a platform for all of its customers' financial needs – as the Amazon of banking. Speed will be key here, not least because incumbents are already trying to buy or partner with the most promising technology platforms.

So if Revolut is to win the battle for the customer interface in banking, it will have to make a broader name for itself faster than incumbents fully embrace the open-API model, which would cement their positioning as the owners of the customer interface.

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