THE FINTECH REVOLUT-ION

Is Portugal ready for Banking Disruption?

By January 2018, two and a half years after its launch, Revolut, one of the hottest UK-based Fintech, had signed up over a million new users in Europe representing $6.1 billion in transactions. Revolut was reinventing how international financial transactions were conducted and offering a “beyond banking” experience as traditional banks were no longer meeting the needs of younger, tech savvy generations.

Indeed, Revolut had created a huge community in Europe. However, Portugal was getting behind other European countries in terms of number of customers. The country was a challenge for the company. Social-economics and demographics in Portugal and the market’s willingness to move from traditional banking systems to digital-enabled banking

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solutions could be an issue. Was Portugal ready for digital disruption in the banking industry? Would it be necessary to adapt such a successful international business model to the Portuguese market? How could Revolut increase the customer base in Portugal?

**Part I - Revolut**

**The Fintech Revolution**

Fintech companies—technology firms that focus on financial products and services—transformed ways of doing business in the financial services industry. The buzz surrounding Fintechs showed the tremendous potential of using new technologies to reinvent financial services by offering consumers and businesses new ways to bank. The Fintech opportunity rose from the emergence of new technologies and the stringent banking/financial regulations that failed to capture the changes of consumers’ habits. Regulation was seen as a barrier to entry into Financial Services due to the complexity and time consuming nature of managing detailed customer information in a global setting. However, in the UK, the Financial Conduct Authority (FCA) created a regulatory sandbox, a “safe space” in which businesses could test innovative products, services, business models and delivery mechanisms without immediately incurring all the normal regulatory consequences. This allowed Fintech experimentation within the market. On top of that, the new Payment Services Directive (PSD2) was set to accelerate industry disruption and remove some entry barriers to the financial market by allowing third party providers to enter the market (see Exhibit 1).

Fintech players contributed to create a new face for the global financial sectors and offered many improvements to solve the pain points that consumers were feeling with their financial transactions. As consumers became more digital and mobile, Fintechs proved to be able to meet their expectations in a more innovative and human-centric way than traditional banks. Instead of the traditional short-term profit vision of banks, Fintech companies were focused on innovation by creating value for both the company and its customers.

In 2017, global investment in Fintech reached $31 billion\(^1\), reflecting the upward trajectory

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\(^1\) Source: KPMG Pulse of Fintech report Q4’17
of these startups since in 2016 the amount was $25 billion (approximately €21 billion). Worldwide, Fintechs attracted a lot of investment due to innovative visions and easy-digital banking solutions that were fascinating Venture Capital investors. Moreover, consumers were drawn to Fintech services because its propositions were simpler, more convenient, more transparent and more readily personalized.

Among all Fintechs, ten main categories were identified: lending, blockchain, regtech, personal finance, payments, insurance, capital markets, wealth management, money transfer and real estate (see Exhibit 2). For all these categories, Fintechs were offering more customer friendly services not influenced by the legacy systems of traditional banks. Therefore, creating new opportunities for customers to save money and time by avoiding unnecessary costs and compliance matters. The potential market for the users of Fintech services was very broad and these players were offering exceptional user experiences meeting the high expectations of the more tech-savvy consumers. Indeed, the growth of these new players changed the financial ecosystem. The Fintech revolution introduced several innovative companies in the market and Revolut was one of them. The Fintech surfed the wave of growing international travel and disrupted the way banks were managing International transactions.

**Challenger Bank**

Nikolay Storonsky, Revolut’s founder and CEO, noticed that handling money abroad had long presented difficulties for travellers. More and more people were choosing an international lifestyle and the typical solutions offered were old and inadequate. As a former trader at Credit Suisse, Nik had a financial background that made him understand that the exchange rates charged by the banks were too high. Therefore, he was determined to build a banking solution in which hidden fees would be removed. Established in London in 2015, Revolut defied the limitations that banks had and that international borders imposed. The Fintech was considered to be a so-called Challenger Bank because it was competing against longer-established banks. It offered a solution for international transactions avoiding the costs and complexities of traditional legacy banking systems.

Revolut started as a foreign exchange card linked to an App with the aim of "building a fair and frictionless platform to use and manage money around the world". However,
due to the introduction of many new features that were highly useful for everyday life, Revolut became much more than a travel App. The service not only allowed free international money transfers, fee-free global spending, the ability to spend in more than 90 currencies at the interbank exchange rate but also included exciting features such as analytic budget tools, cryptocurrency investments and insurance systems with geo-location. Revolut’s business model was based on a “Freemium model”, as it included a free basic account with the possibility for paid add-on services, a premium plan for €7.99/month, and also a setup for businesses (see Exhibit 3).

Disrupting the Financial Services Industry: Revolut-ionary?

Revolut had the mission to build a 21st century alternative to banks by creating a service for a global lifestyle. The main objective was to bring transparency and innovation into the financial services industry by providing an appealing service that would attract younger generations.

“When from day one we set out to revolutionize what millennials had come to expect from the incumbents, like crazy fees when you spend money abroad, and take the user experience far beyond banking,” said Storonsky.

The company had three main revenue streams: a cut of the revenue from MasterCard and VISA interchange fees paid by merchants in order to process their payments, consumer add-ons (features at extra cost) and premium and business accounts. Moreover, Revolut was promoting new game-changing start-ups in the App and gaining fees for every customer who was signing up.

Regarding funding rounds, by November 2017, Revolut had already raised over $82 million in funding (see Exhibit 4). The company was using the US$ 66 million funding from Index Ventures to add new features and expand internationally. Indeed, Revolut was adding features at a rapid pace. The Fintech moved beyond money exchange and turned into an app where customers could get the best financial product at the best price.
The company was also making an additional effort to monetize the business model by introducing delivery fees and affiliate programmes, through the premium and business accounts. Although, margins were thin for Fintech businesses, Revolut after two and half years of its launch reached break-even. In fact, December had a huge increase in the total volume of transactions and signups. Because of that, Revolut broke even in December 2017 for the first time in a monthly basis.

Revolut was creating a kind of financial marketplace while monetizing the business model. The Fintech not only launched current accounts that allowed customers to have their salaries paid into their digital account but was also partnered up with a bunch of other Fintechs to encourage users to do everything from investing in property to borrowing money through its App (see Exhibit 5). In fact, many of Revolut's services were done through partnerships with other providers. For instance, the partnership with the Peer-to-Peer platform Lending Workslet allowed its UK users to borrow between £500 and £5,000 through the App just in two minutes. The property investment platform, Bricklane was also one of the partners to offer an ISA product and Trussle an online-only mortgage provider used artificial intelligence to advise people on the right mortgage.

Furthermore, Revolut was in the process of acquiring an EU banking license to broaden the portfolio of services it could offer to its customers. Having an EU banking license would allow Revolut to expand its product offering to include savings and credit products. It would also mean that customer funds up to €100,000 would be guaranteed by the European Deposit Protection Scheme, which could encourage customers to keep more money with the Fintech.

For the future, Revolut was planning to partner up with more third parties to expand its offering. Moreover, even though it was applying for an EU banking license, its goal was not to become an actual bank but rather a new digital banking alternative for  

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2 ISA (Individual Savings Account) is a tax efficient way to save. UK residents can invest up to £20,000 (in the 2017/18 tax year) tax-free. It means that people won’t pay tax on any increase in the value of your investments or income received.
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the traditional banking system. "Our goal is to get beyond banking. You don't really need to be a bank and being a bank actually limits you.", said Storonsky.

Creating a Global Network

In just little over two years, Revolut signed up 1,000,000 users in Europe and processed 42 million transactions, and claimed to have saved customers $160 million in foreign exchange fees. In January 2018, the Fintech was getting closer to become a Unicorn as it was almost valued at $1 billion.

Revolut was signing up 3,000 to 3,500 new customers across Europe per day. The Fintech was ahead of other European rivals such as UK-based Monzo, which had 400,000 customers, and German N26, which had over 500,000 users across Europe (see Exhibit 6). They were all in a race to build a global, app-only bank hopping to win over a new generation of millennial customers and disrupt the banking system.

Revolut’s business model was based on an entirely organic growth, driven by word-of-mouth. While other competitors like Monzo and N26 were investing on marketing, Revolut was keeping marketing expenses low. The Fintech believed that its product was so good that it did not need attractive advertisements to push consumers to become Revolut users. In fact, it trusted that consumers would choose to become Revolut’s users because they really believed that it was the best service in the market, rather than because of marketing campaigns pushing them.

Furthermore, Revolut was creating a huge community that was leveraging customer engagement. In the community website, users were helping each other, sharing ideas and Revolut was making important announcements and providing information about its services and customer support. The Fintech was relying on viral marketing for growth. For instance, Revolut emailed its users to ask for help to get 1 million customers by advertising the service to their friends on Facebook. RevRally events were also gathering together Revolut users, in different cities across the globe, to talk about Revolut’s plans for the future while socializing.

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3 Privately held startup company valued at over $1 billion.
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However, the Fintech knew this was not enough. Nikolay Storonsky said:

“Whilst our organic growth has been exceptional, we still have a long way to go. To boost growth across Europe, we have launched local teams across key European markets to enhance our brand awareness and we’re pressing ahead with global expansion, with the United States, Canada, Singapore, Hong Kong, Australia and New Zealand all planned for early 2018.”

Revolut hired a world-class team of International Expansion Managers. In fact, staff numbers jumped from 7 in 2015 to 300 by the end of 2017. Moreover, the company was also paying for the technical infrastructure and relevant licensing required to operate across new territories to accelerate customer acquisition globally. Britain was Revolut's biggest retail market, followed by France, Spain, Greece and Lithuania. Revolut was already well established in many European countries. However, in Portugal it was still lacking a Country Manager. In fact, the Country Manager of Spain, Pablo Viguera, was the one in charge of the Portuguese market.

Part II - European Market

European Open Banking

Financial innovation was playing a key role in the transformation of banking globally. With the 2nd edition of the Payment Services Directive (PSD2) coming in 2018, the EU had to reconfigure the ground rules for banking. Countries such as France, Germany, Italy, Netherlands, Spain, Poland, United Kingdom and Luxembourg were already living this reality. However, Portugal was taking more time to establish this new directive compared to other European countries. The deadline for transposition was January 12th 2018 but the Portuguese authorities - political and regulatory - failed to meet this deadline.

Furthermore, countries like the UK and Germany were already one-step ahead as they created a “regulatory sandbox” that allowed businesses to test innovative products, services, business models and delivery mechanisms in the real market, with real
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consumers. Spain was also preparing a scheme whereby Fintechs could innovate and operate without breaking the banking rules. On the other side of Europe, Lithuania was also doing a notorious job. For instance, Revolut applied for the European banking license in Lithuania because the country was becoming a fast regulator and Fintech-friendly.

European countries were making the shift from traditional legacy systems to an Open Banking system, an important trend in the financial services industry. Open Banking main goal was to promote a new financial ecosystem where both incumbents and Fintech players could cooperate (see Exhibit 7). In fact, it was creating a network of financial institutions’ data through the use of Application Programming Interfaces (APIs). A system that was helping financial services providers sharing their data with other financial institutions.

Indeed, European banks were collaborating and partnering with Fintechs to build an environment that would nurture innovation (see Exhibit 8). Collaboration would help both traditional banks and Fintechs to focus on their core competencies and contribute in areas of their expertise for a better joint outcome. Traditional banks were helping Fintechs to scale up their business by providing financial infrastructure, capital, and access to their huge customer base. On the other hand, Fintechs were offering innovation and disruptive technologies to banks, which was helping them enhance the banking experience for their customers.

The emerging ecosystem of Bank-Fintech collaborations paved the way for new banking experiences. The term Banks as a Platform (BaaP) was at the forefront of banking innovations. BaaP was creating a complete shift in the banking business model, directly linking Banks with Fintechs for more innovative solutions, enabling them to provide a one-stop shop for customers.

Part III - The Portuguese Market

While Europe was moving forward Portugal was not evolving at the same pace. The question whether the Portuguese Government and regulators were sufficiently
organized to take advantage of this new regulation change in the best possible way, was a concern. Banco de Portugal (BdP) had been devoting increasing attention to the theme. However, was that enough?

**The Portuguese Banking Transformation**

The reality of digital transformation had caused profound changes in the traditional banking sector and in how payments were processed. Banking was becoming increasingly digital and that was being reflected on the decreasing number of branches. In 2016, there were 4,739 branches in Portugal (-5.3% year-on-year). This trend was caused by people going less and less to the branches. In fact, there were strong indications that this effect would be strengthened over the next few years, as younger generations were more willing to use new technologies.

As younger generations were demanding a more digital banking experience, payment habits were also changing. Data processed by SIBS (Sociedade Interbancária de Serviços) noted that the purchasing/withdrawal ratio had been increasing, which indicated a greater use of card payments over the use of cash (see Exhibit 10). Moving from cash-based to digital payments had the potential benefit of making payments more efficient by lowering the cost of disbursing and receiving payments. However, even though Portugal was reducing its cash usage, it still needed to increase its Networked Readiness Index, which measured the capacity of a country to leverage information and communication technologies (ICTs) for increased competitiveness and well-being (see Exhibit 11). In fact, cash was still a relevant payment mean. In 2017, cash was used in 81% of payments at points of sale in Portugal, a percentage 4 times higher than in Sweden (see Exhibit 12). Moreover, cash was still used to pay reduced values to family or friends (values lower than 20€), representing 75% of the Peer-to-Peer payments (P2P).

Furthermore, the knowledge of new digital payment methods substituting cash was reduced and limited to the use of early adopters group. In fact, consumer confidence in alternative forms of payment was a critical success factor for its adoption.

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4 SIBS - Forward Payment Solutions, S.A - Company that manages the Portuguese ATM network.
Portuguese people trusted Multibanco (ATM system) and banks above any other entities (see Exhibit 12). The main payment method used in Portugal was the ATM service, Multibanco, an idiosyncrasy of the country that was not visible in other European countries. In Portugal, ATM services allowed payments in a single network of easy access, across all the banks, and also provided a myriad of other services. Multibanco was a property of SIBS, which was considered an international benchmark and one of the largest payment processors in Europe as well as a pioneer in technological development. In Portugal, people were so familiar with the system that they used it for everything from banking transferences, charging phones, to paying taxes or telecommunications, water and gas bills. Also in e-commerce, the payment of services through Multibanco was the most used, followed by MB NET⁶ and then the traditional card (see Exhibit 13). While in other European countries the payment processors associated with ATMs were not having such impact on consumers’ payments habits, leaving more space for other payment processors.

Multibanco was a payment system with which Portuguese people were trusting and feeling comfortable. However, this was inducing a certain inertia in the market in the face of new media/channels that were having some difficulty in conquering their space. According to SIBS new means of payment launched by major global brands, such as Android Pay or Apple Pay, were still little known by the Portuguese. Customers were generally trusting their primary providers rather than new digital services.

Digital Ecosystem in Portugal

Banco de Portugal (BdP) was paying increasing attention to the Fintech presence and evolution in the national market. BdP was trying to support and stimulate, at the national level, the debate around the great challenges that digital innovation placed on the system and its regulation. It also created a working group to study the evolution of digital banking and Fintech. Moreover, BdP and Fintech and Insurtech Portugal Association (see Exhibit 14) agreed to hold regular meetings to discuss the problems

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⁶ System which enabled the generation of virtual proxy cards, which replace your debit or credit cards, for online merchants that accept VISA, MasterCard or American Express.
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of the Fintech sector in Portugal and the adaptations that were to be made in the regulation to deal with technological innovation. Moreover, another organization, Portugal Fintech was studying the possibility of creating an "innovation hub" in Portugal. However, there was still a long way to go. Many players in the market believed that their efforts were not enough. For instance, they believed the Portuguese Government could have played a crucial role in coordinating all the actors from regulators and banks to Fintechs by creating a stable infrastructure for companies, startups and incumbents to develop initiatives in the digital area. As previously referred many European countries were creating “Regulatory Sandboxes” and Portugal was still not doing it.

Despite the fact that PSD2 was still not implemented and there was no “Regulatory Sandbox”, there were already numerous players disrupting the market. Some banks were already 100% digital and others were trying to build an Open Banking Experience. SIBS was taking advantage of how Portuguese people trusted the ATM system, Multibanco, by offering new digital services. Moreover, besides Open Banking and PSD2, the Government was also increasingly aware of the economic benefits that technologies like Blockchain could bring to the society, in general.

**Portuguese Digital Banks**

In 2017, BdP authorized opening bank accounts through digital channels, confirming the account holder's identification in videoconference by capturing a two-sided image of the customer's identification document. This was an important milestone because clients would no longer need to move to a bank branch to confirm their identity, contributing for the possibility of banks offering a 100% digital proposition.

From 2017, banks started to offer consumers the possibility to open deposit accounts through their Apps. In Portugal, there were some banks building its image and brand around a digital experience. ActivoBank, founded in 1994 by Millennium BCP, was the first financial institution in Portugal to innovate regarding direct banking by establishing a non-presence relationship between clients and banking services. BiG - Banco de Investimento Global was launched in 1998, providing various services to customers through the internet, such as access to international stock markets and
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credit cards. Banco Best, founded by Novo Banco in 2001, was also one of the first digital banks in Portugal. Banco BNI Europa (founded in 2005) was collaborating with Fintechs to launch new products and positioning itself as a Challenger Bank.

However, banking digitalization was not only about opening accounts and digital services. The concept of Open Banking was becoming a huge opportunity and many European banks were leveraging the use of APIs to develop Open Banking services. In Portugal, BiG was at the forefront of this initiative. By January 2018, the Portuguese Bank established a partnership with Deposit Solutions⁷. This partnership allowed the bank to have direct access to deposits from other markets and customers without them needing to develop a retail infrastructure.

Portuguese banks were already innovating. Considering other European benchmarks, it was clear that banks were becoming increasingly digital-oriented. Banks’ offerings were changing, and almost all banks had their own Apps and digital account openings. However, many banks were still struggling in terms of Open Banking strategies, as it was something new in the market. For instance, many Consulting projects for banks were analysing Open Banking strategies.

The Multibanco Network

The year 2016 was marked by the growth of the MB Way (launched in 2015), a payment system developed by the Portuguese ATM network, SIBS. MB Way was an App that allowed users to make instant transfers, online and physical purchases, generate MB NET virtual cards and even withdraw money through smartphone, tablet or PC. It worked with any member bank, as users just needed to associate a bank card with a mobile phone number and set a 6-digit pin. According to SIBS, the MB Way type user actively bought in digital stores (86% were e-commerce heavy/medium buyers), was under 34 years old (51%) and lived in large urban centres (39%).

⁷ German Fintech that developed an Open Banking platform for deposits, connecting banks and depositors across Europe.
The App had a high level of awareness among consumers, as it was consolidated as the digital complement to Multibanco. In 2016, more than 120 thousand purchases were made with MB WAY, with a value of more than €2 million, and more than 90 thousand transfers worth around €8 million. On average, more than 1,300 operations per day were performed with MB WAY. However, a market study also from SIBS stated that still many customers were satisfied with the traditional offer, not yet recognizing the usefulness of alternative methods for their day-to-day life, despite the growing number of solutions that were emerging in the market. Nevertheless, MB Way was attracting younger generations due to its simplicity and speed. In 2017, MB Way started to offer a new feature, Near Field Communication (NFC). With this, MB Way users could tap their smartphones into the payment terminals to make payments up to 20€. For instance, Pingo Doce was the first food retailer to make Near Field Communication (NFC) payments via MB Way.

The total value of transactions made using contactless technology was expected to reach 1.3 trillion globally by 2019. In Portugal, the number of contactless cards was increasing, having reached 7 million in 2016. However, despite the growth, a SIBS study revealed that there was still some lack of knowledge regarding the way this payment was used, as well as its safety. While other European countries were enabling NFC technology in many points of sale, Portugal was still at a very early stage, with neither the users nor the retailers being used to them. Indeed, a greater investment in this field was required to ensure an increasing dispersion of the necessary infrastructure to support this type of technology.

In 2018, SIBS also announced that it was developing an Open Banking API platform nationwide. This platform would create a single ecosystem by joining together Portuguese banks and disruptive new players, accelerating the collaboration between them and the development of innovative services. In this case, SIBS would take care of all compliance matters and allowing banks new opportunities.

However, SIBS is more focused on the Portuguese market in comparison to the European market. For instance, the European Central Bank (ECB) criticized MB Way

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for being a platform developed internally, to serve only clients of Portuguese banks, when "we should focus all our efforts on the creation of pan-European solutions”.

**Fintech Players**

Portuguese startups in the financial area were few in number but had already won prizes in international forums. The majority of Portuguese Fintechs was included in the category of “Collaborative Fintech”, that is, those whose main objective was to sell products and services to financial institutions. There were no startups born in Portugal in the category of “competitive Fintech”, that is, those entering the market to compete with financial institutions with disruptive offers such as Revolut.

In 2017, James, a platform for credit risk, won the title of best European Fintech in the world's largest industry conference - Money 20/20. James was built to make risk officers' lives easier by helping them achieve lower default rates and better origination practices. James designed an interface that grants these professionals a higher predictive power through the application of advanced scientific computing capabilities (e.g., machine learning). Its purpose was to make sure risk teams had continuous access to state-of-the-art data science techniques without having to setup complex software solutions.

Seedrs was an Equity Crowdfunding Luso-British Platform. The Fintech allowed any person to invest in a startup, starting at 10€, and depending on the amount of the investment, the investor would receive corresponding shares of the company. For instance, Revolut raised its capital of £3.8M from over 4,200 investors in August 2017, in the largest Seedrs campaign ever. Another huge Portuguese success was LOQR. This Fintech delivered simple to use authentication solutions and personalized customer journeys through a centralized management portal. In just few minutes, anyone could open a bank account remotely, without any paper and handwritten signature. LOQR was growing fast and reaching customers even across borders, with no need of local branches to reach new clients.

ComparJa.pt was a free and independent online platform for comparison and analysis of financial products and services. The Fintech had the objective of helping Portuguese consumers to make informed decisions about the different aspects of their financial life, from saving, credit, to the management of monthly income. Indeed,
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Portuguese were wasting time and several thousand euros for not looking around the more competitive offers in the market. Raize was managing the largest national loan portfolio for small and medium-sized enterprises (SMEs). By the end of 2017, Raize’s platform had more than 13,000 investors who were investing every day in SMEs across the country and sectors of the economy. In terms of payments, Switch Payments, was allowing customers to use whichever payment method they would prefer without dealing with countless payment providers. For the business segment, Magnifinance was supporting the financial management process as a whole, from billing, control of payments and receipts to expenditure management, automatically synchronizing all bank movements. Feedzai was focused on the electronic fraud detection. Some of the world’s largest banks, payment providers and retailers were using Feedzai’s machine learning technology to manage risks associated with banking and shopping.

There were also other international Fintech players having success in Portugal. Glase (former SEQR) was a Swedish international mobile wallet that could be directly associated with any bank account. This mobile wallet aimed to revolutionize the payment industry by presenting a complete and independent solution as an alternative to the card industry by reducing transaction costs for shopkeepers and making life easier for consumers. Portuguese consumers could make their payments in stores, online websites, restaurants, car parks, petrol pumps, vending machines, among others by recognizing QR-code. Ebury was a Fintech also specialized in international payments and foreign exchange. In 2017, Ebury had already 100 clients in Portugal representing companies with an international presence, mainly Small and Medium Enterprises (SMEs) that were importing and/or exporting.

Challenges ahead

Revolut had just entered the Portuguese market and there was still no local team handling operations in Portugal. In January, Revolut had 32,000 users in Portugal but the Fintech had the goal to increase this number to 125,000 by the end of 2018 with 20% of them using Revolut as their main bank account.

The biggest challenge was to increase Revolut’s awareness in Portugal and consequently increase its customer base. The Fintech was having a tremendous
success in many other European countries. However, Portugal meant new challenges. Portuguese consumers were still relying a lot on the services offered by the main bank providers (traditional banks and/or the ATM network). In fact, Portuguese consumers were less willing to switch from traditional bank providers to new players in the market, compared with consumers from other European countries. How could Revolut compete against these players that were in the Portuguese market for so long and had the trust of consumers? Furthermore, there were some structural problems. Although, Revolut card were working on terminals that supported the Visa and MasterCard network, they were not working on terminals that only accepted cards from the ATM network.

On the other hand, there were also a lot of opportunities in Portugal that could be exploited. Portugal was increasing its digital presence and there were many interesting potential partners in the Portuguese market. A local team could exploit potential partnerships that would improve Revolut’s awareness and penetration in the Portuguese market.

Indeed, with an efficient strategy, Revolut could be the first Challenger Bank in Portugal to truly succeed. A specialized team could be the trigger to better understand the Portuguese market and consequently find ways to attract more Portuguese users. There was definitely potential in the Portuguese market for more Revolut customers, but the key question was how to attract and retain them.
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Exhibits

**Exhibit 1** - Payments Service Directive 2 (PSD2)

Revised Payment Services Directive (PSD2)
open-access article is an open door for fintechs

PSD2 mandates banks open up API access to fintechs

Source: CBINSIGHTS, 2018

**Exhibit 2** - Key Fintech trends

Source: SBINSIGHTS, 2018
Exhibit 3 - Revolut Features

**STANDARD**

- Free UK current account
- Free Euro IBAN account
- Interbank FX rates
- Free bank transfers in 25 currencies
- £200/€200 Free ATM withdrawals per month

**PREMIUM**

- Free UK current account
- Free Euro IBAN account
- Interbank FX rates
- Free bank transfers in 25 currencies
- £400/€400 Free ATM withdrawals per month
- Free unlimited FX volumes
- Free exclusive Premium cards
- Free overseas medical insurance
- Free Global express delivery
- Exclusive Priority 24/7 customer support
- Exclusive Premium promotions

Source: Revolut Website, 2018
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**Exhibit 4 - Funding Rounds**

<table>
<thead>
<tr>
<th>Announced date</th>
<th>Transaction Name</th>
<th>Number of Investors</th>
<th>Money Raised</th>
<th>Lead Investor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jul 30, 2017</td>
<td>Equity Crowdfunding</td>
<td>-</td>
<td>$5.3M</td>
<td>-</td>
</tr>
<tr>
<td>Jul 11, 2017</td>
<td>Series B</td>
<td>3</td>
<td>$66M</td>
<td>Index Ventures</td>
</tr>
<tr>
<td>Jun 8, 2017</td>
<td>Debt Financing</td>
<td>1</td>
<td>-</td>
<td>TriplePoint</td>
</tr>
<tr>
<td>Jul 20, 2016</td>
<td>Equity Crowdfunding</td>
<td>1</td>
<td>£1M</td>
<td>-</td>
</tr>
<tr>
<td>Jul 14, 2016</td>
<td>Series A</td>
<td>6</td>
<td>£6.8M</td>
<td>Balderton Capital</td>
</tr>
<tr>
<td>Jul 14, 2016</td>
<td>Non Equity Assistance</td>
<td>1</td>
<td>-</td>
<td>MasterCard</td>
</tr>
<tr>
<td>Feb 4, 2016</td>
<td>Seed round</td>
<td>5</td>
<td>£1.7M</td>
<td>-</td>
</tr>
<tr>
<td>Jul 20, 2015</td>
<td>Seed round</td>
<td>2</td>
<td>£1.5M</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Crunchbase, 2017

**Exhibit 5 - Timeline**

- **JANUARY 2017**
  - Bill Splitting Functionality
- **MARCH 2017**
  - Partnership with Lending Works
  - Revolut Premium
- **JUNE 2017**
  - Business Current Accounts
- **OCTOBER 2017**
  - Recurring Payments
- **JANUARY 2018**
  - Travel Insurance
- **JULY 2015**
  - Launched
- **FEBRUARY 2017**
  - Current Accounts
- **APRIL 2017**
  - Partnership with Trussle
  - RITA Chatbox
- **JULY 2017**
  - S$66 Funding Investment by Index Ventures
  - Euro Accounts - IBAN
- **DECEMBER 2017**
  - Cryptocurrencies Investment Feature Break-even
### Exhibit 6 - Main Challenger Banks

<table>
<thead>
<tr>
<th>Bank</th>
<th>Regulatory Strategy</th>
<th>Products Launched Prior to License</th>
<th>First Product</th>
<th>Licensed Digital Current Account</th>
<th>Personal Finance App</th>
<th>Total Reported Funding</th>
<th>Latest Funding Date</th>
<th>Select Investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revolut</td>
<td>Bank Charter</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>$94M</td>
<td>Q3 2017</td>
</tr>
<tr>
<td>N26</td>
<td>Bank Charter</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>$138M</td>
<td>Q1 2018</td>
</tr>
<tr>
<td>Tandem</td>
<td>Bank Charter</td>
<td>✔</td>
<td>×</td>
<td>×</td>
<td>×</td>
<td>×</td>
<td>$30M</td>
<td>Q4 2016</td>
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<tr>
<td>Atom</td>
<td>Bank Charter</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>£51.6M</td>
<td>Q1 2018</td>
</tr>
</tbody>
</table>

| | | | | | | | | | |
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Revolut added more customers without a charter

Customers acquired since respective launch date

Source: CBINSIGHTS, 2018

Challenger banks add fintech partnerships to grow

APIs and enabled integrations are a cheaper faster way to launch products and acquire customers

Source: CBINSIGHTS, 2018
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**Exhibit 7 - Open Banking**

![Diagram of Open Banking](image)

Source: XMLdatio, 2017

**Exhibit 8 - Banks collaborating with Fintechs**

<table>
<thead>
<tr>
<th>Approaches to build FinTech Capabilities and Drive Innovation</th>
<th>Benefits from Collaboration with FinTechs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funding/Collaboration</td>
<td>Increased customer experience</td>
</tr>
<tr>
<td>Setting up Accelerators</td>
<td>Environment for innovation</td>
</tr>
<tr>
<td>Develop In-house Capabilities</td>
<td>Reduced cost of operations</td>
</tr>
<tr>
<td>Acquire Non-traditional/FinTech Firms</td>
<td>Deriving better insights from data</td>
</tr>
<tr>
<td>59.3% Banking executives agree that FinTechs are setting the bar higher</td>
<td>77.8% Banking executives say that FinTechs provide opportunity for partnerships</td>
</tr>
</tbody>
</table>

Source: Capgemini Financial Services Analysis, 2016; World FinTech Report, Capgemini 2017
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**Exhibit 9** - Evolution of the Purchases/Withdrawals ratio, using the Multibanco network (Thousands of millions €)

Purchases
Withdrawals

Source: SIBS, 2016

**Exhibit 10** - Share of cash in Europe

Source: European Central Bank (ECB), 2017

**Exhibit 11** - Cash in Portugal and Europe

Source: European Central Bank (ECB), 2017
Exhibit 12 - Trust in Payments Processors

Source: SIBS, 2016

Exhibit 13 - Payment methods used in E-commerce

Source: SIBS, 2016
Exhibit 14 - Associação Fintech e Insurtech Portugal (AFIP)

Founded in 2017, AFIP, Associação Fintech e Insurtech Portugal, promotes the development of new financial and insurance technologies in Portugal. The Association aims to improve the competitive positioning of Fintechs and Insurtechs within the Portuguese market.

AFIP’s main activities include:
- To disseminate information and knowledge about Fintech and Insurtech.
- To establish relationships between the entities participating in the sector.
- To promote public support for private investment in the sector, through the creation of infrastructures that offer direct support for investments and R&D.
- To ensure the efficiency of networks and legal frameworks.
- To establish connections with international counterparts.

On top of these, AFIP is developing a detailed characterization of the sector including a national census of the Fintech and Insurtech businesses in Portugal. Moreover, AFIP is committed to educate the Portuguese population about Fintech and Insurtech. The Association will promote specialized courses for students, IT professionals and banks employees to leverage technical knowledge about the sector. Moreover, it is promoting roadshows in Universities, national conferences, international competitions like the BBVA Open Talent, one of the finest Fintech competitions in the world and also international conferences such as the Insurtech Insights Conference and the Innovate Finance Global Summit 2018, both in London. In fact, AFIP is leveraging the importance of having an international network.

Furthermore, AFIP is exploring the opportunities that could be triggered by having a regulatory sandbox in Portugal. For instance, it is paying attention to the impact of it in Spain, to better understand the impact that it could create in Portugal. AFIP already had meetings both with Banco de Portugal and CMVM (Portuguese Securities Market Commission) to discuss the challenges of the Fintech sector in Portugal and share perspectives on the future development of the sector. It was agreed during those meetings that there is a common interest in the development of the sector and that further opportunities for the financial services industry should be exploited.
References


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