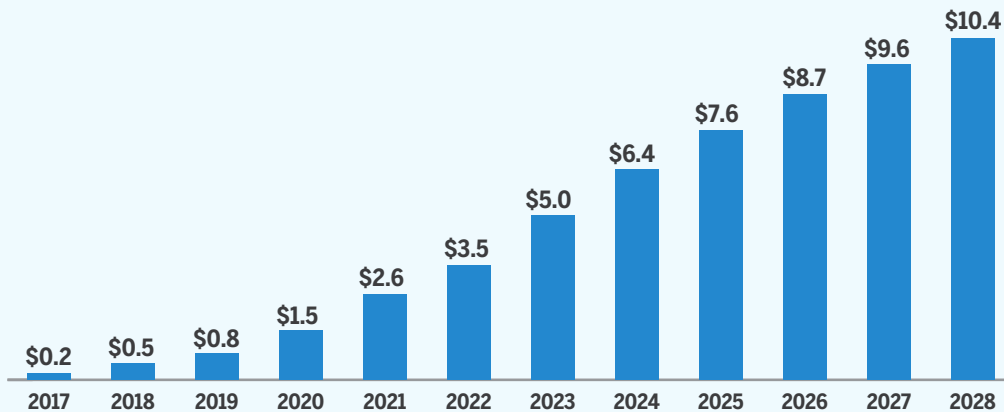




Banking on Disruption?

Over the past decade, digital transformation has significantly changed the banking industry, enabling more convenient services, personalized products, and innovative solutions. While U.S. banks have embraced digital solutions, many traditional banks in other countries have been slower to adapt. Could this create a potential opportunity for long-term investors looking to capitalize on secular growth trends abroad?

Global Transaction Value of Neobanks (in trillion USD)



Source: Statista. Estimated projections are from 2024 through 2028. Neobanks are fully digital financial institutions that offer a range of banking services, such as checking and savings accounts.

- Neobanks are fully digital, branchless institutions accessed primarily through smartphones that streamline banking processes for consumers and small businesses. Moreover, neobanks offer attractive unit economics, with lower customer acquisition costs largely driven by word-of-mouth referrals. This drives organic growth without the need for heavy sales and marketing expenses or branch build-out costs. Once customers are onboarded, neobanks can quickly drive monetization by increasing credit lines and cross-selling additional products. Given their lean cost structure, neobanks can offer lower fees and higher interest rates compared to traditional banks.
- In the U.S., where banking penetration is high, incumbent banks were quick to roll out digital services to their existing customers, leaving little room for neobanks. However, in many emerging market countries where banking penetration is 50% or less, neobanks have captured a larger share of this underserved market due to their cost advantages over traditional banks. In the chart above, the global transaction value of neobanks has surged from \$230 billion in 2017 to \$3.5 trillion in 2023, with projections to reach \$10.4 trillion by 2028.
- In our view, neobanks exemplify how digital transformation is disrupting the global banking system. We believe that neobanks capable of quickly scaling and growing market share—particularly in emerging market countries—may be well positioned to attract higher-value customers, potentially capturing a larger share of the total banking profit pool.

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