

zeta

Riders on the storm

How fintechs and bigtechs are growing through innovation and how FIs must follow suit

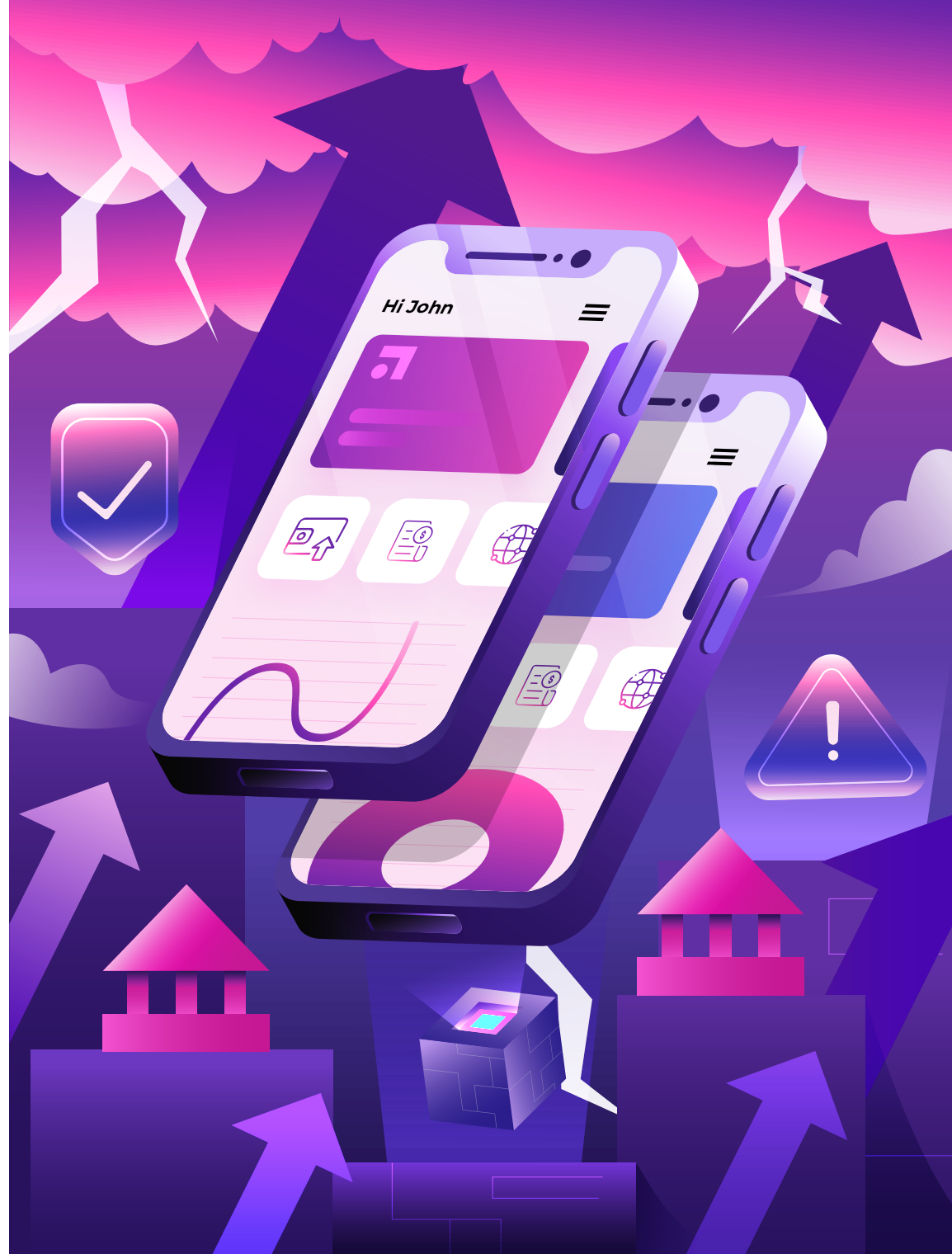


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CHAPTER 1

Fintechs and Bigtechs are unleashing a storm of disruption

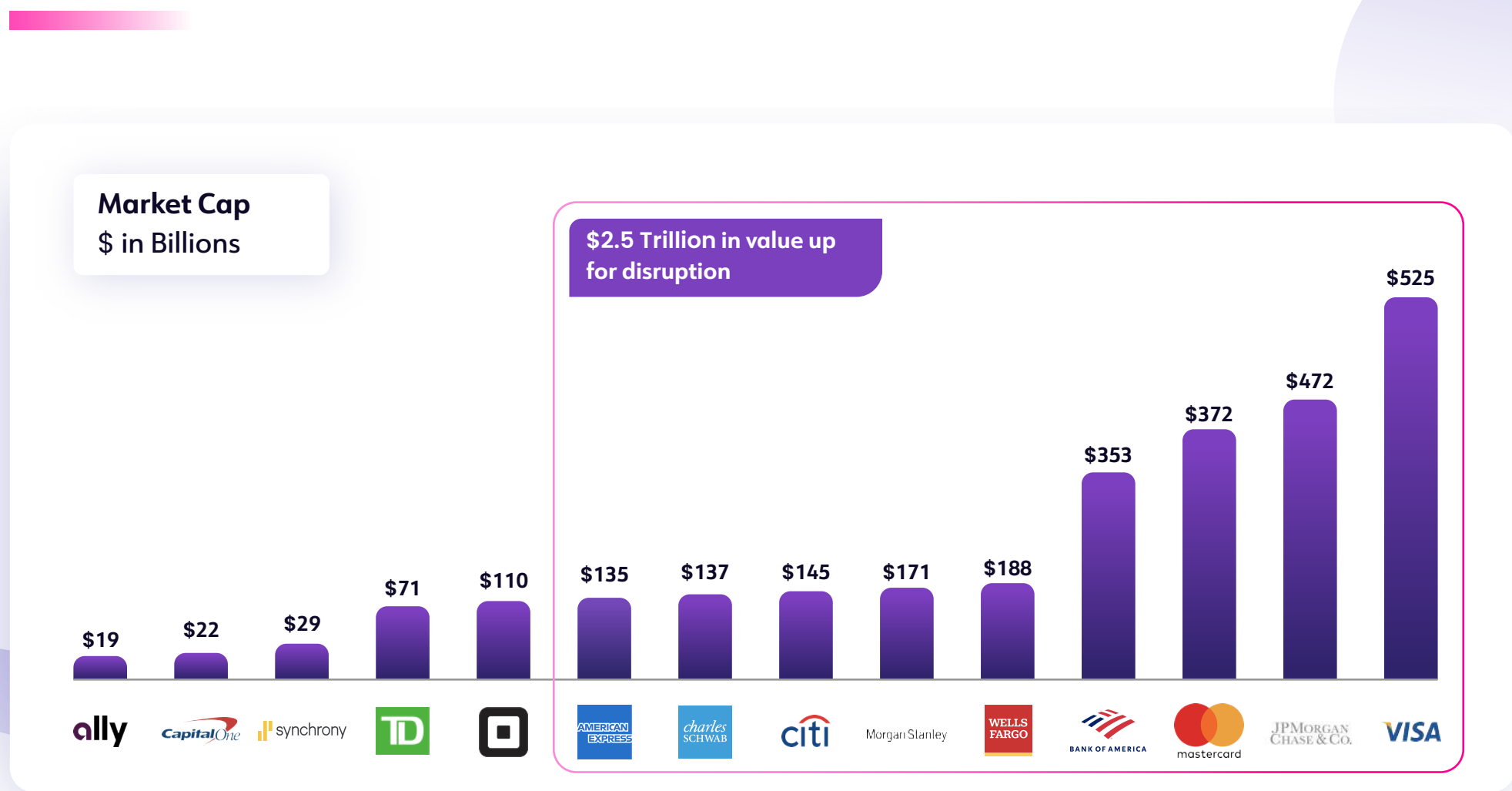
Dozens of industries have been caught by surprise by technology disruption over the last few years

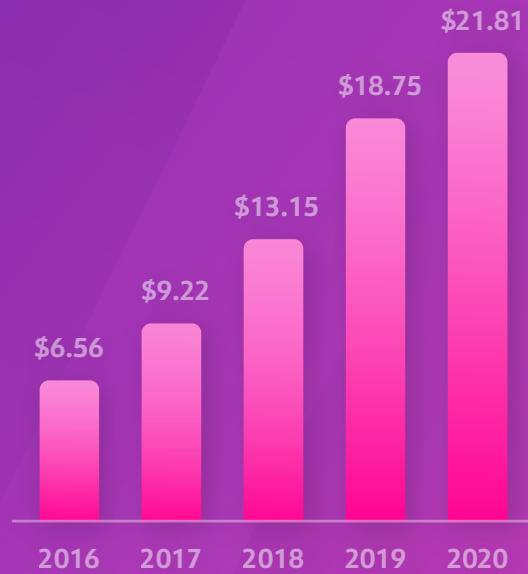
Disruptors					
Disrupted					

With disruptors capturing value from incumbents



Financial services presents a huge opportunity for disruption



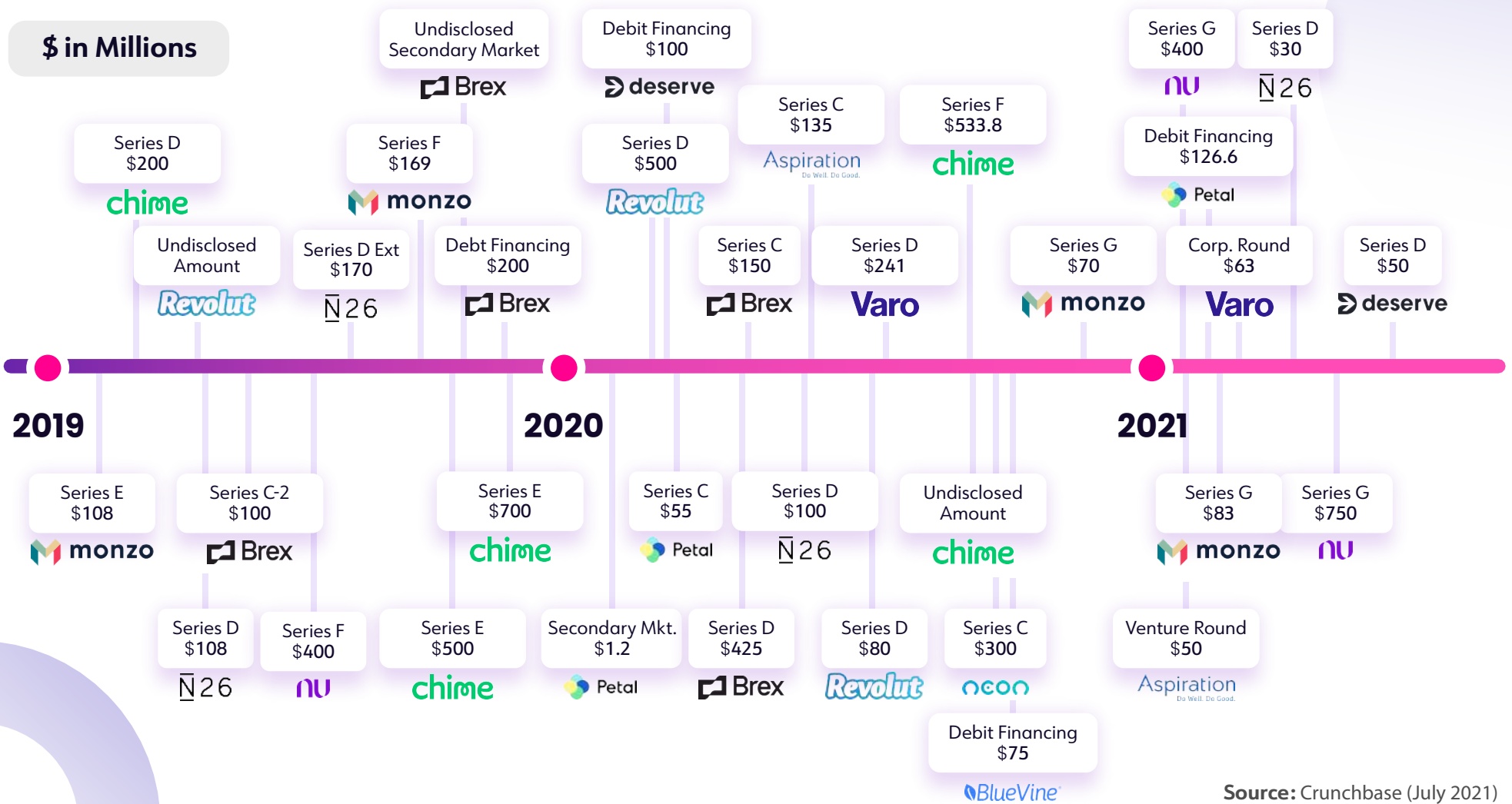


\$ in Billions

Source: CB Insights

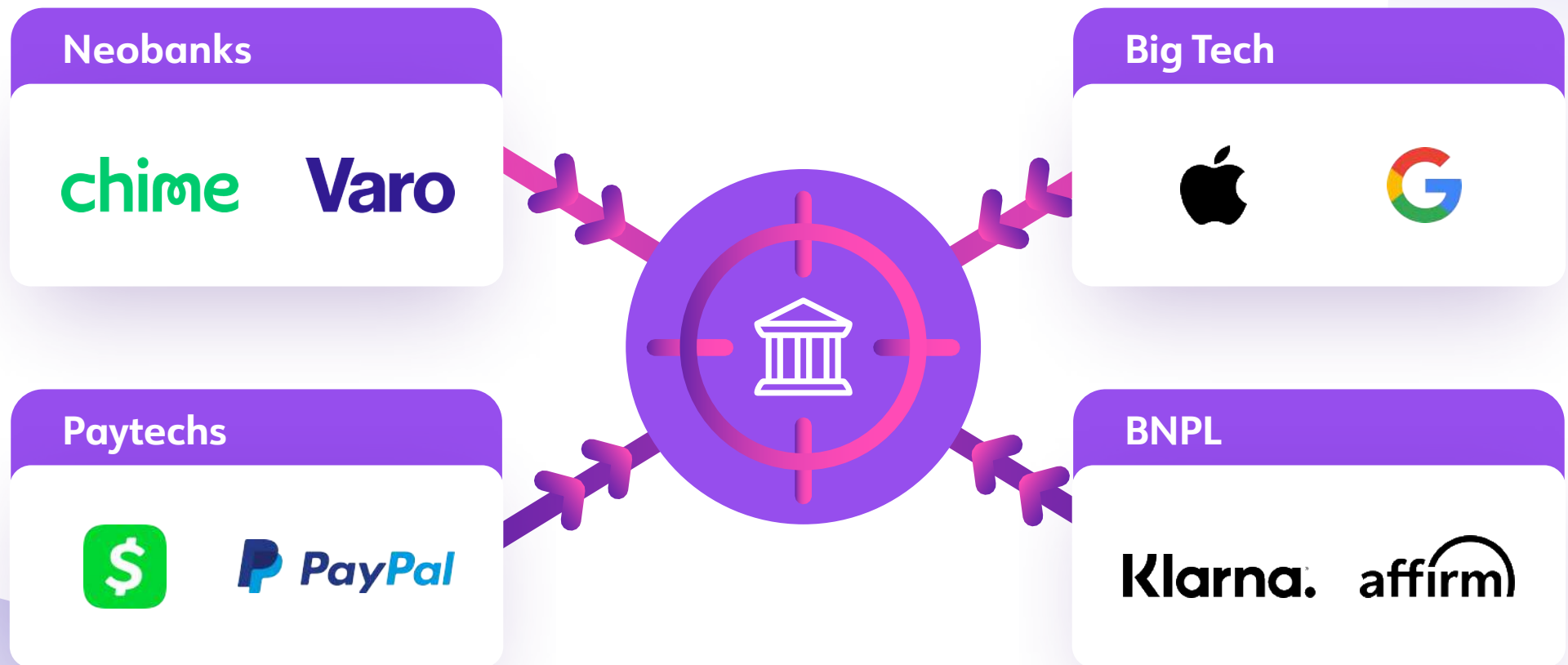
This opportunity has attracted over **\$70 Billion** in funding for North American Fintechs in the last 5 years

Leading to Challenger Fintechs raising unprecedented war chests to combat FIs / Banks for market share



Source: Crunchbase (July 2021)

... and to legacy banks/FIs being under attack from all directions



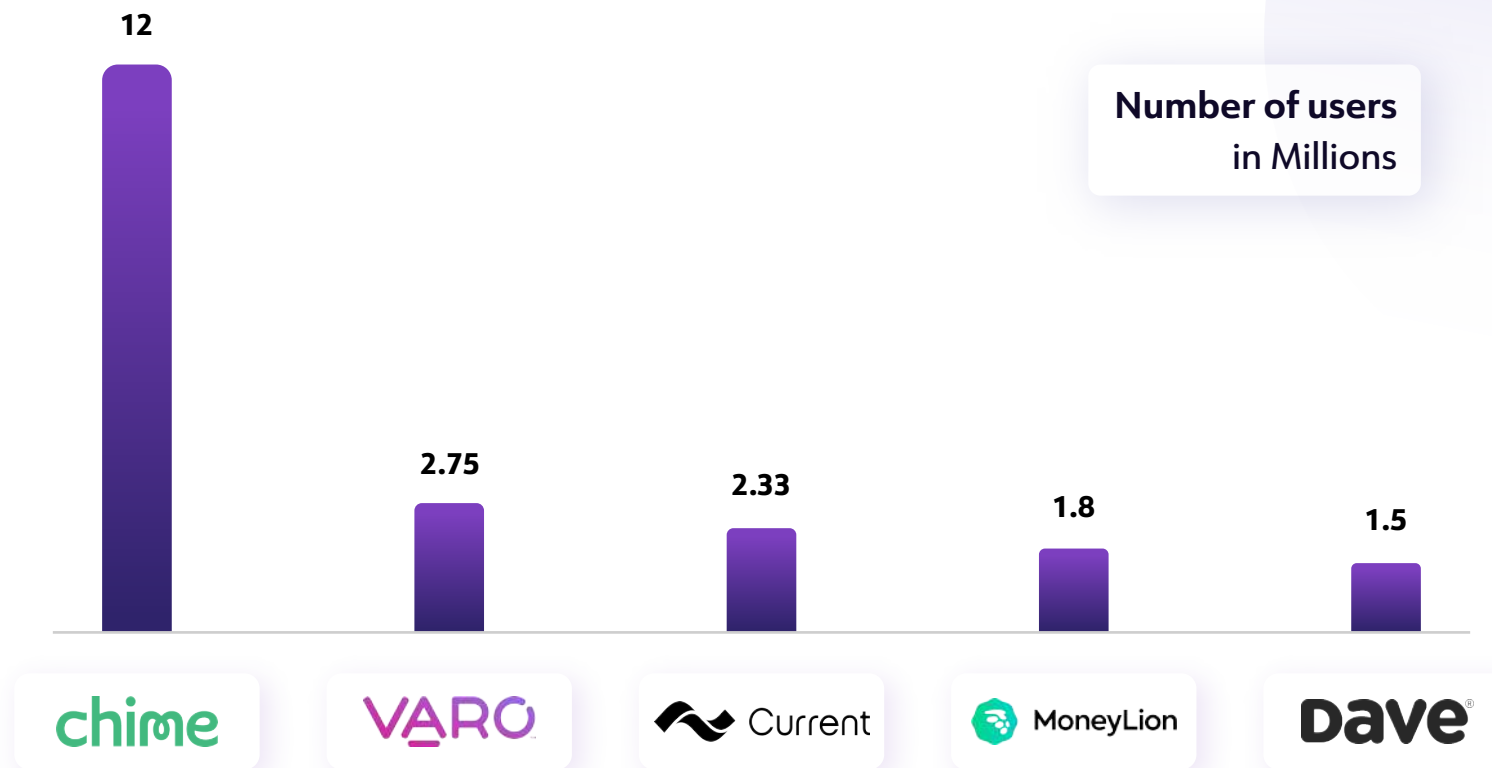
“Absolutely, we should be scared
s***less about that.”

- **Jamie Dimon**,
CEO JPMorgan Chase on the Fintech threat to Banks



Neo Banks

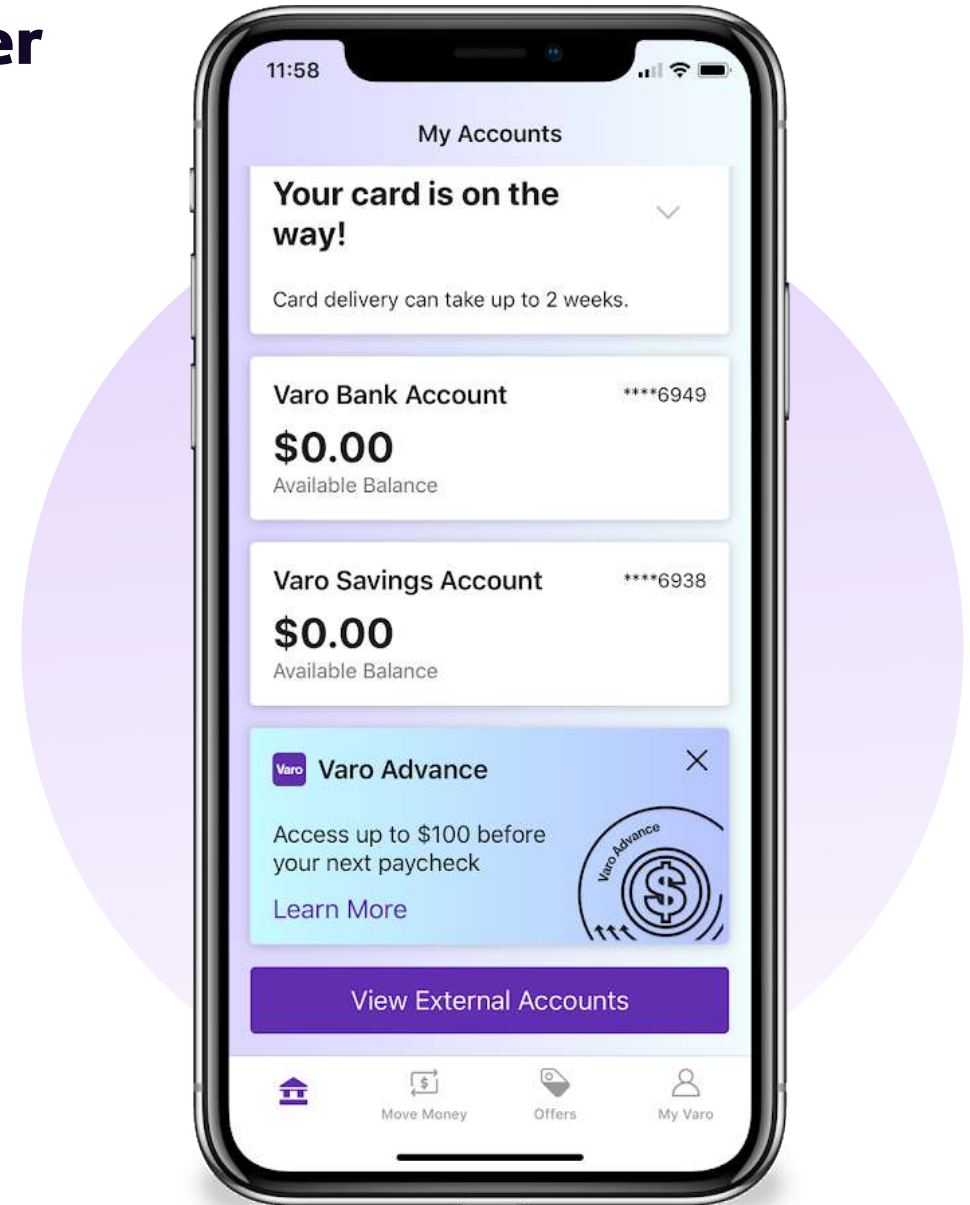
Neobanks are seeing large scale adoption



Source: Company press releases

And causing a massive customer share shift

- Digital only Neo/Challenger Banks are the Primary bank for
 - 11% of US Bankable Population
 - 17% of those with 2 bank accounts
 - 30% of those with 3 bank accounts
- Incumbents not only losing share, but also their primary position with customers that have multiple bank accounts

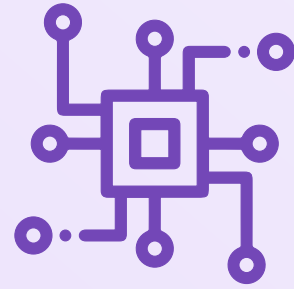


Source: Forbes (Feb 1 2021), Challenger Bank Chime Reaches The 12 Million Customer Mark, Cornerstone Advisers (2021)



In January 2020, just **4%** of Gen Zers and Millennials considered a checking account from a challenger bank their primary account. By December 2020, that percentage had grown to **15%**.

Source: Forbes (Feb 1 2021), Challenger Bank Chime Reaches The 12 Million Customer Mark, Cornerstone Advisers (2021)



Big Tech

Apple is coming for your credit card



\$10 Billion portfolio
in first 75 days



3.1 Million new users
in first 6 months



60% Apple credit card users
consider it as their primary card



1 out of 2 phones
in the US is Apple



Google is coming for your DDA Account



53% of Americans are active Google account users



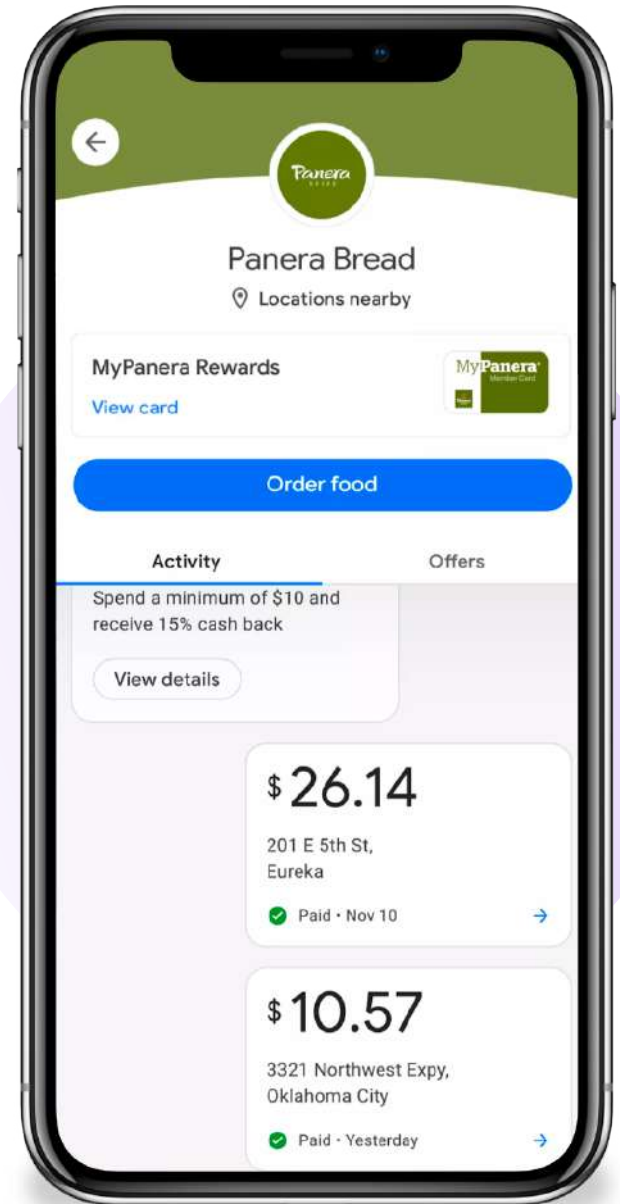
4 in 5 Americans under 34 would consider moving their bank accounts to bigtech



42% of devices in the USA run on Android



25 Million Google Pay users in the US



Amazon is unbundling the bank



Credit Cards

amazoncash



Checking Accounts
(including prepaid cards)

amazonlending

Line of credit/loans

amazon pay
amazon protect

Insurance

amazon pay
amazon go
amazon PayCode
amazon payment services

Merchant services
(including payment solutions)

business prime

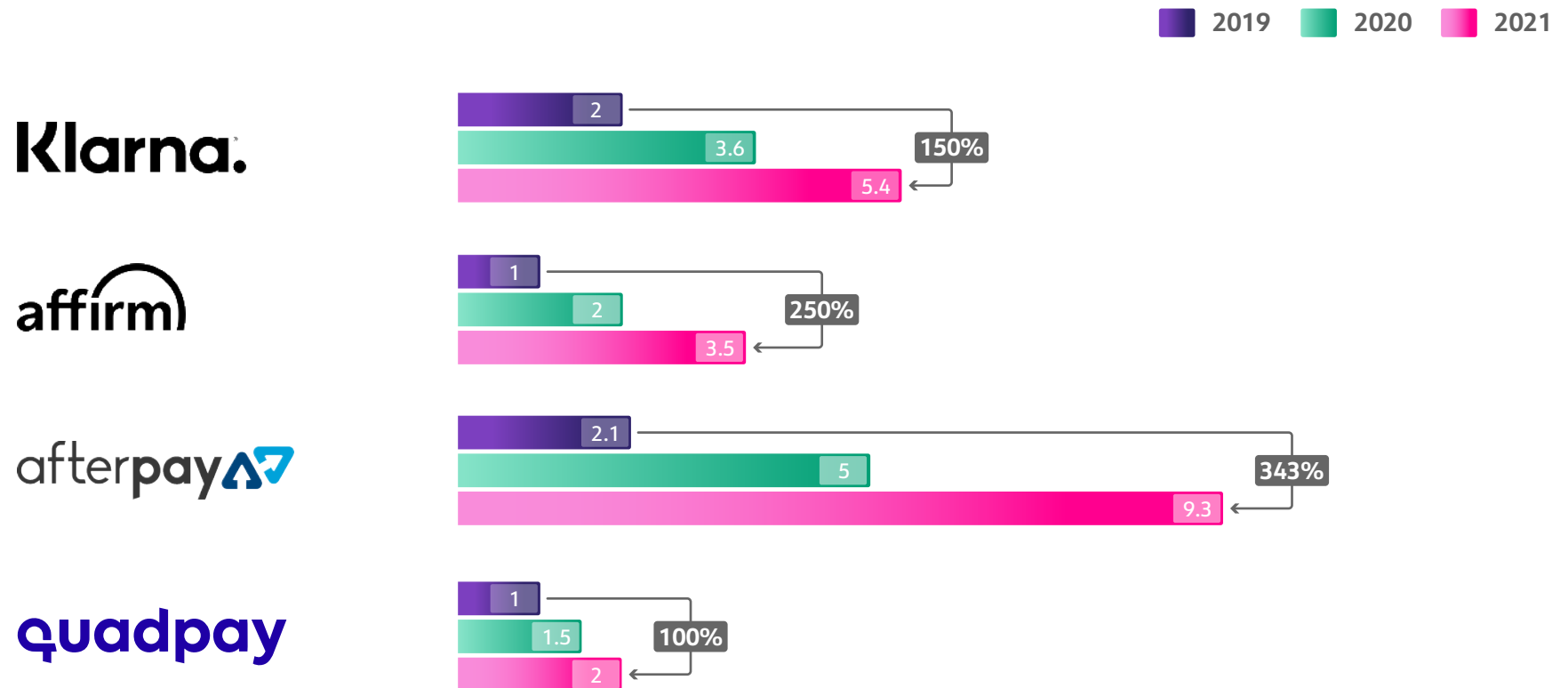
Business credit cards



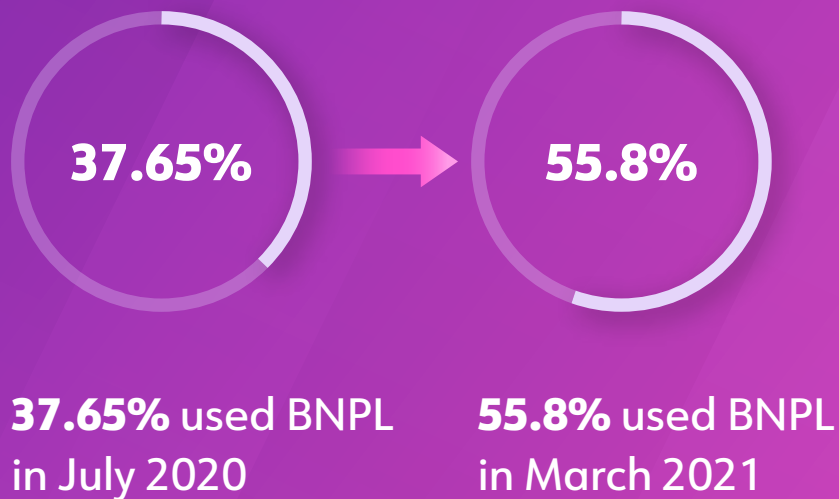
BNPL

BNPL is seeing explosive growth in the US

Active Users by BNPL company (in Millions)



Source: Company annual reports & press releases

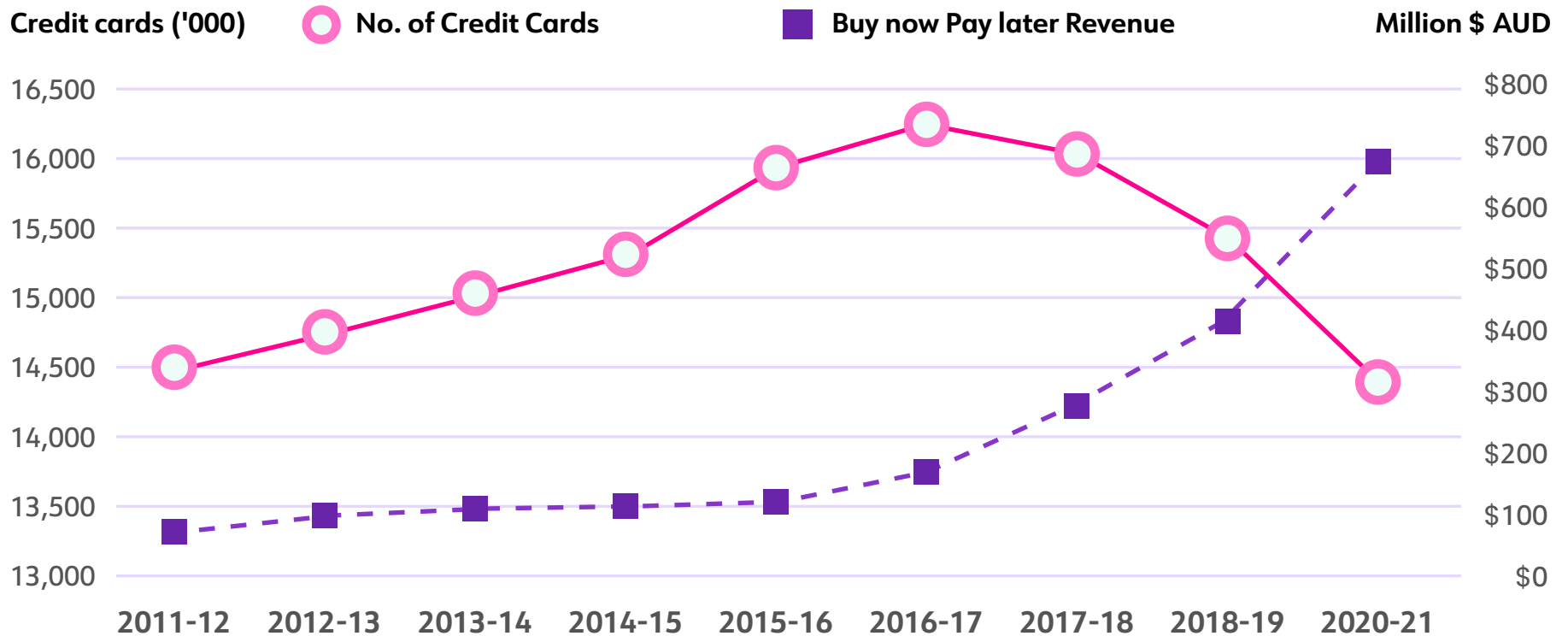


55.8% of consumers have used a buy now, pay later service, up from **37.65%** in July of 2020 - an increase of almost **50%** in less than one year.

Source: Ascent (March 2021), Study: Buy Now, Pay Later Services Continue Explosive Growth

In other markets, BNPL is eating market share from credit cards

The number of credit cards has declined in Australia since 2016-17, with consumers pivoting towards BNPL services



Source: Yahoo (14 Jul 2020), IBISWorld, RBA



62% of buy now, pay later users think BNPL could replace their credit cards.

62%

Source: Ascent (March 2021), Study: Buy Now, Pay Later Services Continue Explosive Growth



Paytech

Cash App is coming for your payments & transfers



\$5.9 Billion revenue in 2020
353% increase



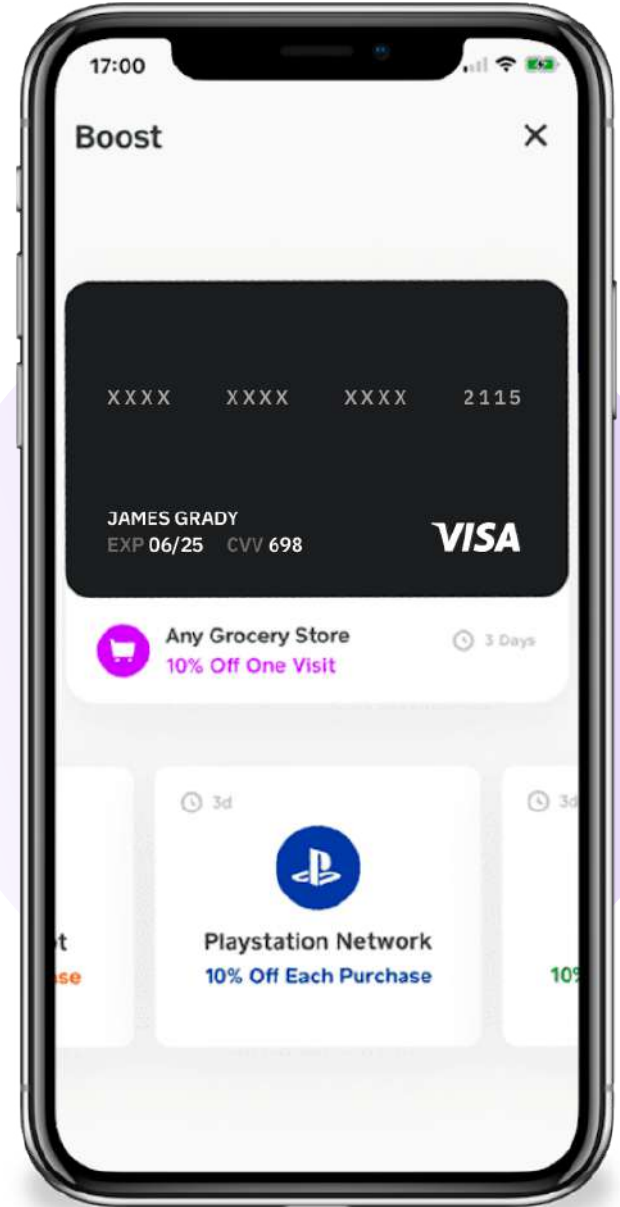
100 Million
downloads

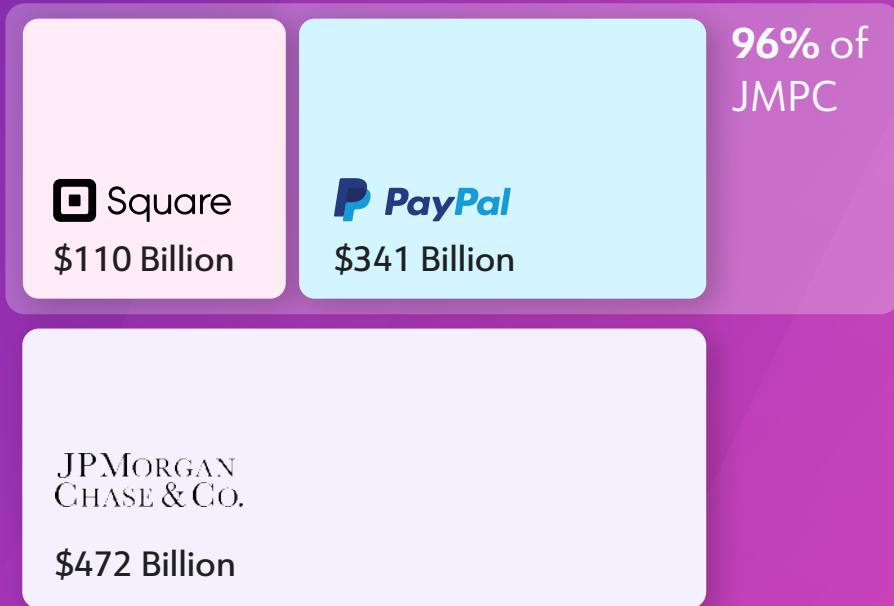


36 Million users
Monthly active users



7 Million users
For Cash App Debit Card





Paypal and Square together have valuations that rival large banks

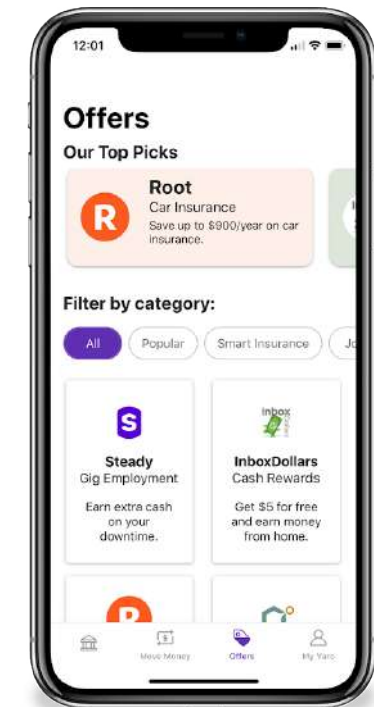
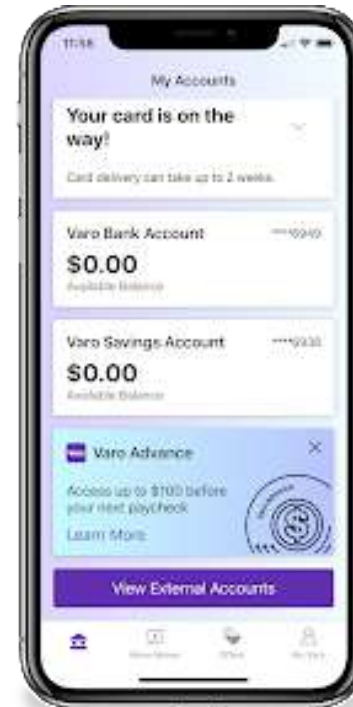
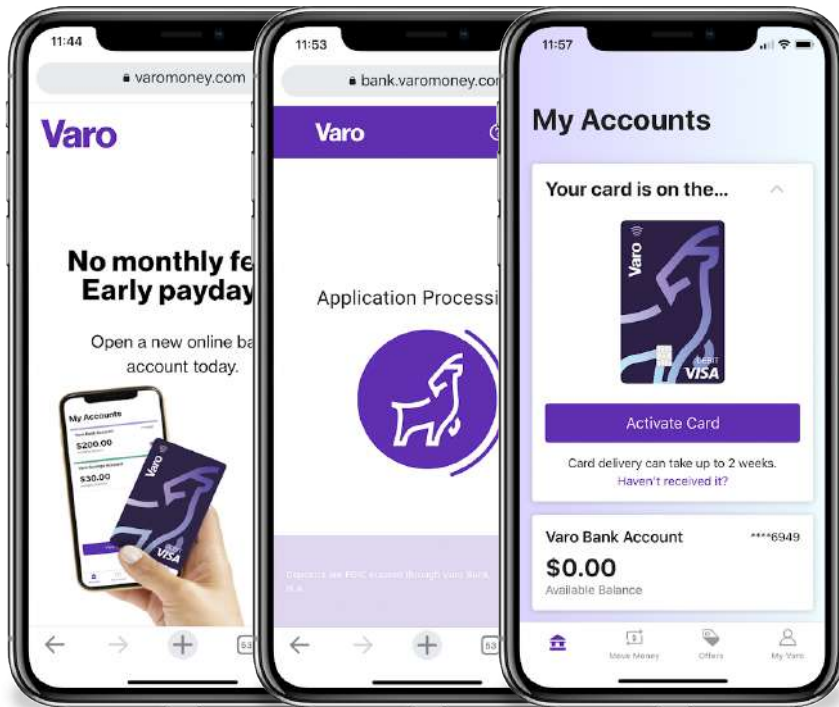
Source: Market cap as of June 2021

CHAPTER 2

How are new entrants building market share?

By leading with product & experience

Easy, smooth and elegant



< 60 seconds →

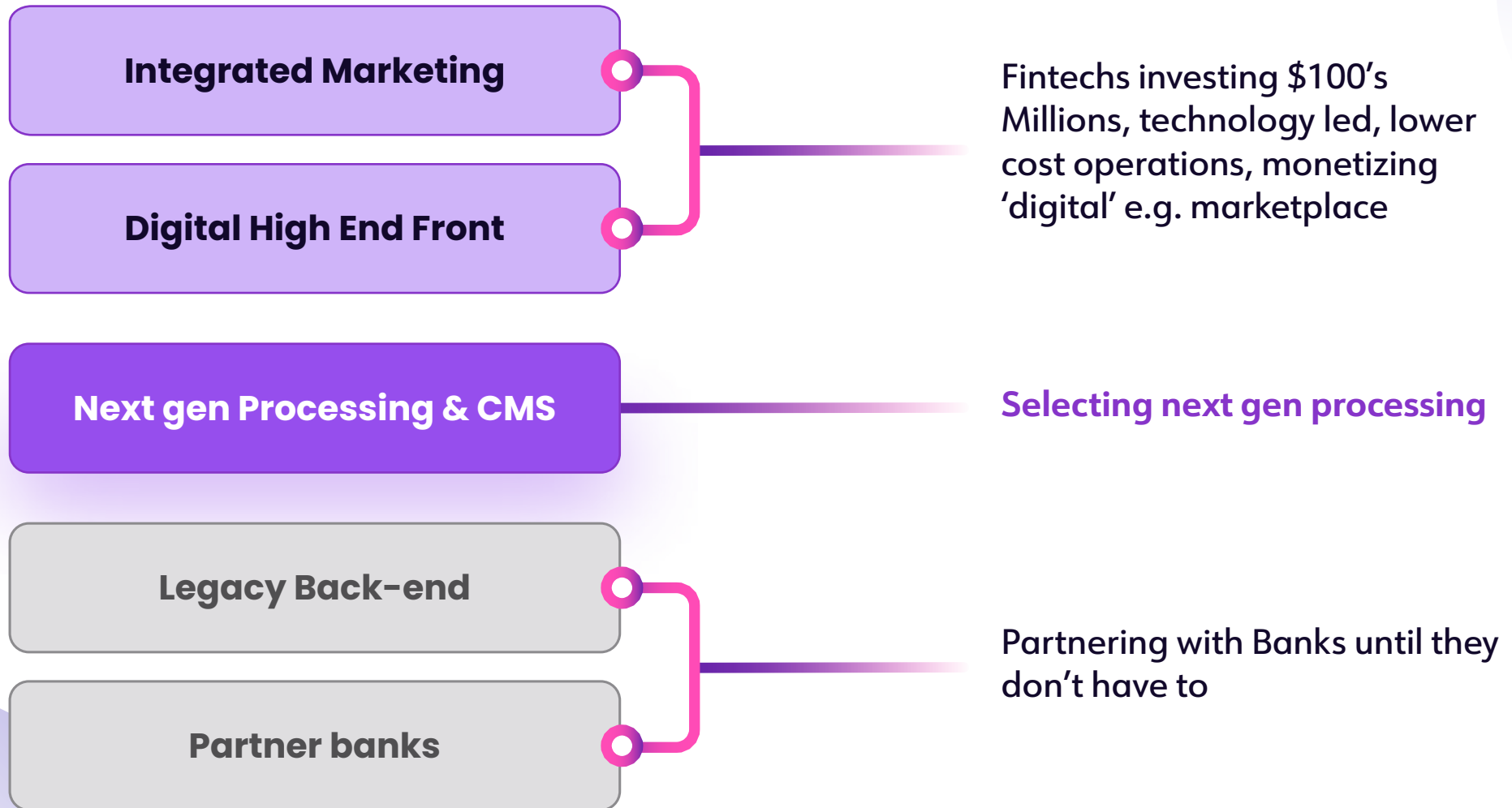
New Revenue →

- 1. A/C opening < 1 minute (Checking & savings bundle)
- 2. High Savings APY
- 3. No fees
- 4. Clean Easy to use
- 5. Direct deposit quick setup

- 6. Smart OD Protection

- 7. Financially relevant marketplace / offers

By changing the business model & how they deliver value



By segmenting based on socio-economic needs



Oct 2020

GREENWOOD

Greenwood bank focuses on providing digital banking services to Black and Latino customers. It focuses on giving back to the community through various donation features built into the account



Nov 2020

Daylight

California based Daylight is focused on providing digital banking services to the LGBTQ community. Its features include ability to use chosen names, community focused content and access to LGBTQ friendly financial coaches



Mar 2021

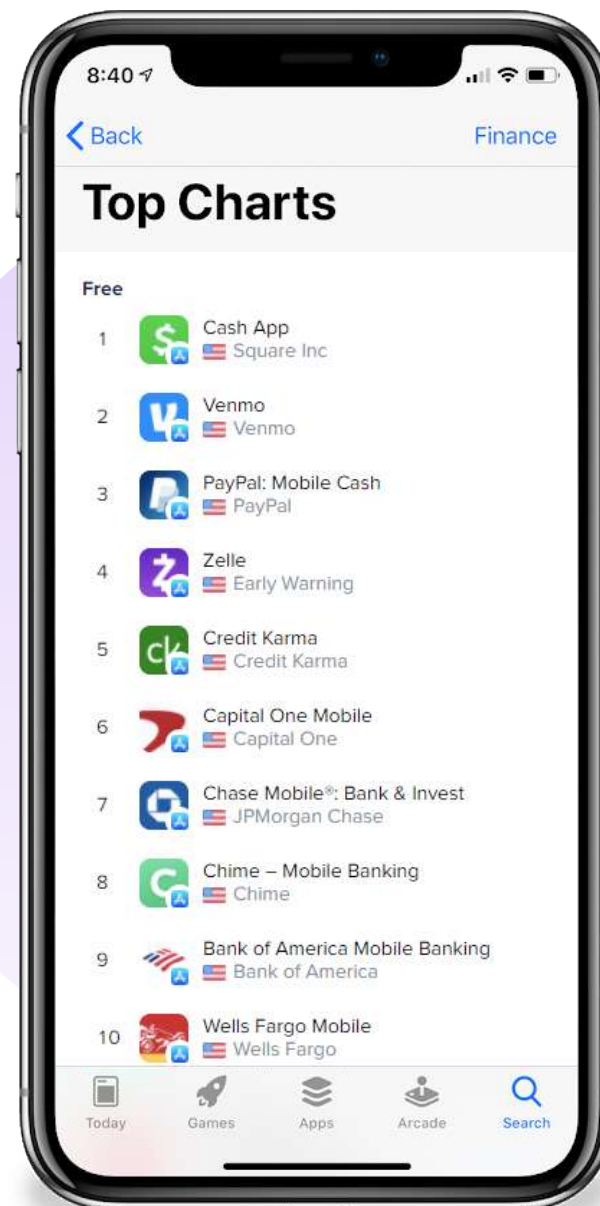
C;heese

Cheese focuses on providing banking services to the Asian community. It features upto 10% cashbacks when shopping at Asian stores, multi-lingual interfaces in asian languages and higher deposit bonuses.

Source: Company websites and press releases

By leveraging distribution effectively like tech companies

- Fintechs are adept at using marketing to distribute like tech companies
- For example, CashApp promotes viral growth by giving away cash through contests and celebrities
- The result:
 - 4 out of top 5 financial apps are all non FI fintechs
 - Fintechs like Chime (12 Million) and Cashapp (36 Million) has seen exponential user growth
 - Only 7 of the top 50 apps are from incumbent FIs



Source: Zeta analysis



By building for the consumers of tomorrow

Millennials will experience rapid growth in their share of wealth to nearly 16% by 2030, but their per capita wealth will trail that of older generations. **Firms will therefore need differentiated services to serve Millennials profitably.**

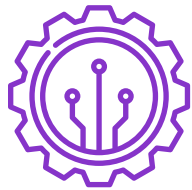
Gen Z now controls \$45 Billion in annual spending, and the oldest Gen Z customers are nearing 24. **The group numbers nearly 60 Million in the U.S.**

Gen Z members over the next decade will **“grow up to be the most demanding consumer the world has ever known”**

Fintechs are rolling out new apps and tools with the Gen Z user in mind, to help them build credit histories while still in college, and allow them to earn savings rewards for completing household chores.

CHAPTER 3

What's preventing Financial Institutions from doing the same ?



Legacy Technology

**Outdated to serve
digital needs**

Legacy technology results in:

- High technical debt & consumption of large chunks of IT spends
- Slow delivery of new products & features to market
- Low STP rates and dependence on manual processing - keeps costs high



Banks spent anywhere from **65-70%** of their annual technology spends on maintaining legacy systems

Source: Wall Street Journal (2019), Technology Is Banks' New Battleground

“New card programs are entering the market on card platforms that are flexible and agile and can provide a great cardholder experience. Legacy issuers must offer a similar experience or risk losing market share. Unfortunately, many legacy card programs exist on platforms that are not easily scalable, inefficient, and costly to upgrade, putting legacy banks and credit unions at a disadvantage in the market.”

- **David Shipper**,
Senior Analyst, Retail Banking & Payments
practice at Aite-Novarica Group



Discrete components



**Restrain product delivery
and innovation**

Discrete components result in :

- Highly complex integrations and custom connectors for creating new innovative products
- Increased costs due to integrating solutions from multiple vendors and maintaining them
- Data being stored in silos in each discrete component - integrated view of data difficult or not possible



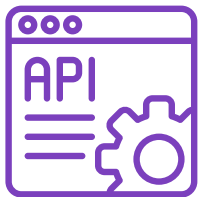
Lack of cloud adoption



Impacts scalability
& resilience

Lack of cloud native systems result in:

- Inability to scale systems elastically to meet increase in demand
- Difficulty in managing system resilience
- Higher costs in maintaining captive data centers and redundant capacity



Not API First

Inability to seamlessly integrate partners and build ecosystems

Systems that are not API first result in:

- Inability to support Open Banking
- Inability to support embeddable banking
- Inability to drive innovation through partner focused ecosystems

Compounded by Macro Headwinds



Low Interest Rates

Pressure on NII, with need to increase fee based income



Stagnant efficiency rates

Flat yield with high operating costs



Changing demographics

Younger generations prefer digital banks



Pandemic

Optionally digital to optionally physical

CHAPTER 4

What do FIs need to win in this new landscape?

Customer centric digital strategy

Product factory of services, mapped to life journey, delivered with high frequency



**Highly
personalized**



**Mapped to their
financial needs**



**New
revenue models**



**Improve efficiency
by lowering TCO**

Shift thinking from **accounts** to **users**

Reimagine what is possible

Status quo is insufficient - must leapfrog neo and challenger banks



Be the Primary Bank for digital natives and digitally savvy customers
 Platform for **open & embeddable banking**, open new distribution channels

Build for Tomorrow

Principle 1

Control

Control all aspects of your business by controlling all points of integration and using a single stack

Principle 2

Pace of change

Build to allow rapid change and deployment of new products & features. This allows for quick iterations and product feature releases

Principle 3

Composability

Decompose technology tasks to their basic form instead of using monoliths. Use a micro-services led approach to allow quick composition of new products

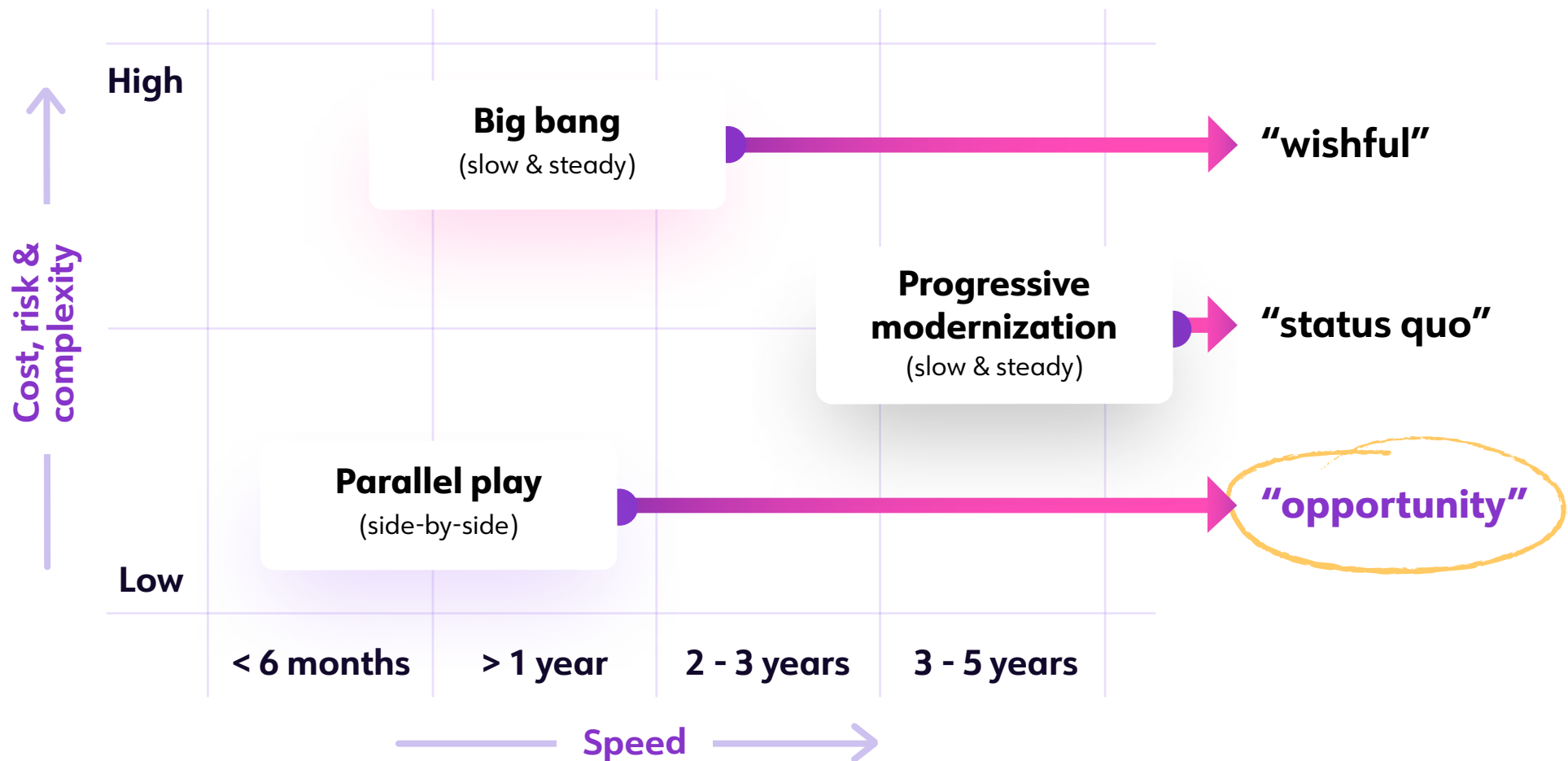
Principle 4

Scalability

Embrace cloud based technology to allow for rapid scaling on demand

Have a workable plan for how to get there

Billions of dollars have been spent on M&A + stack upgrades - too risky & too slow



"Upgrading from a legacy platform requires a comprehensive strategy. Financial institutions must weigh the benefits of a slow and steady change against a parallel solution that allows for testing, control, and rapid installation."

- **Brian Riley,**
Director of Credit Advisory Service at
Mercator Advisory Group



How can we help you?

Zeta enables you to launch innovative financial products that can compete & win in a crowded marketplace.

With Zeta's Omni Stack solution for FIs , you can launch new financial products within 90 days. What sets Zeta apart is its single modern stack consisting of core banking, credit and debit processing, loans and deposits with 100% API coverage and modern interfaces.

Why Zeta ?



Time to Market

Launch new products in < 90 days and new features in days



Modern Experience

Provide modern, neobank-like experiences with a fully private-labeled & customizable mobile app



Increase Income

More customer retention, higher engagement, and contextual cross-sell for real gains in revenue



Lower TCO

Eliminate complex multi-vendor integrations and leverage simplified pay-as-you-go billing



Modular greenfield deployment

Launch new programs in parallel with your existing legacy systems with zero overlap



Open Banking Ready

100% API coverage and extensive SDK support - built for you and your partners



Infinite Scalability

Elastically handle peaks and troughs in volume with our cloud-native, loosely-coupled, microservices architecture



Extensive Backoffice Capability

Configure products, support customers, launch promos, build dashboards and manage all your banking operations in one place

About Zeta

Zeta is a modern banking tech company providing a bank-in-a-box solution to financial institutions around the globe. Co-founded in April 2015 by Bhavin Turakhia and Ramki Gaddipati, the company has 800+ employees and is headquartered in San Francisco, USA with offices across UK, Middle East, and Asia.

To know more about Zeta, log on to www.zeta.tech or follow us on **Twitter**, **Facebook** and **LinkedIn**.

10+

Banks Powered

6

Countries

10 Million

Cards Issued

60 Million

Customers contracted

300+ Million

Transactions/year

zeta

www.zeta.tech

