CELENT

FIDOR: CELENT MODEL BANK OF THE YEAR 2015

CASE STUDIES OF EFFECTIVE TECHNOLOGY USE IN BANKING

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Over the past few years several innovative startups have begun to to reinvent retail banking — think Simple, Moven, or GoBank. Despite intense customer focus and great customer experience, the impact has yet to be felt across a wide customer base. These “neobanks” have been effective at shaping the conversation around the customer experience, but without a banking license their services are fundamentally tied to other institutions which must provide the infrastructure and regulatory expertise. Innovation is hampered by a reliance on traditional infrastructure to provide nontraditional services.

Fidor Bank in Germany is one of the few neobanks with a banking license, allowing it to redefine traditional banking from the ground up. Started from scratch, it aims to provide a truly innovative and differentiating customer experience that offers a comprehensive suite of financial products and services by owning the entire infrastructure.

The bank adheres to two main principles of financial innovation: openness and community. Openness is the flexibility and agility that enables the bank to create an extensive ecosystem of partners and capabilities, while also leveraging APIs to develop differentiating applications. Community is about bringing users together and solidifying a bond between the bank and its customers, as well as between the customers themselves.

In this report, Celent will detail exactly how the bank is delivering its vision of financial services, leveraging its technology and business model to develop the kind of customer-centricity that almost all banks talk about, yet few truly deliver.

Celent will describe Fidor’s vision of banking, show how it is delivering on that vision, and provide lessons that others can learn from.

FIDOR BANK

Key Research Question 1

How is Fidor different from a traditional bank?

Fidor Bank is one of the few neobanks with a banking license, allowing it to redefine traditional banking from the ground up. It also built its own core platform from scratch.

Fidor Bank is a privately held direct bank, launched in 2010 with a brand new German "de novo" charter. The bank is the primary entity in the Fidor Group, which holds two additional entities: Fidor TecS and Fidor Payment Services.

Fidor TecS is the development branch of Fidor Group, developing, implementing, and maintaining the fidorOS platform and its library of APIs. It employs around 30 developers and has been a stand-alone organization under Fidor Bank since 2013.

Fidor Payment Services, as a Strategic Business Unit within Fidor Bank, provides payment services for more than 40 payment methods worldwide. It is the exclusive enabler of Fidor payment products and transaction business. FidorPays leverages the network to allow users to make payments between accounts, transact with cryptocurrency, and make real-time payments across the globe. Table 1 breaks down the three main branches of Fidor Bank and their main duties.

Table 1: Breakdown of the Fidor Organization and Business Units

fidor TECS	fidor BANK	fidor PAYS
Development team	Retail and Commercial Banking arm of the business	eWallet product
• Develop and maintain fidorOS • Manage Fidor ecosystem • Leverage insights from data • Open API infrastructure • Market fidorOS to outsourcing and franchise partners	• Better Banking: transparent, fair, customer-centric • Customer interaction via social media • P2P banking • Crowdfinance • In-account-APPs • Customers rewarded for participation in community	• Closed loop transactions • Acceptance of SEPA, Ripple, etc. • Global and real-time • Cryptocurrency supported • Cards and additional support functions

Source: Fidor Bank

Fidor Bank has been widely recognized for its innovation, winning the 2013 and 2014 Most Innovative Bank for Social Media Award at the Global Banking and Finance Review, Most Innovative Bank in 2013 by *International Finance* magazine, and the 2013 Bank Innovation award from Bankinnovation.net as well as being named a "Global Growth Company" by the World Economic Forum in 2014.

Table 2: Fidor Bank Snapshot as of December 31, 2014

YEAR FOUNDED	2010
COMPANY SIZE	Assets: US$350 million Employees: 98
HQ LOCATION	Munich, Germany
CORE SYSTEMS	fidorOS
SELF-SERVICE CHANNEL SYSTEMS	fidorOS
RELEVANT PARTNERSHIPS	**Core banking:** Bancos/G&H **Peer-to-peer lending:** Smava; finmar **Crowd Finance:** LeihDeinerStadt Geld **Crypto/Blockchain**: ripple, bitcoin.de, kraken **Global Value Transactions/FX:** hyperwallet, The currency cloud **Precious Metals:** Goldmoney

Source: Fidor Bank

The Making of Fidor

In the mid-'90s the founders of Fidor (Matthias Kroner, Dr. Michael Maier, and Steffen Seeger) were at work creating their first financial institution, a discount brokerage bank (similar to Charles Schwab) that capitalized on the rise in amateur stock trading. It was the first time the founders applied lessons learned in one domain (in this case, another geography) to a problem closer to home.

In 2007, web 2.0 was changing the way users were using the Internet and consuming services. Again, the founders saw a trend. Customers were demanding increasingly high levels of engagement and a customer-centric experience across the growing number of web-enabled devices and social media platforms. The founders of Fidor recognized that few financial institutions were meeting customers on their terms (like Google, Apple, and Amazon, for example), but instead continued to pursue a traditional product- and bank-focused view of the business.

The design concept was simple: create a bank from scratch that focused entirely on the relationship with the customer. The bank would put the customer first, create a community of like-minded users, be transparent, and provide incentives.

Fidor applied for a German banking license in 2007, but didn't receive it until May 2009, going live on December 31, 2009. In the meantime, the team built the initial model for the Fidor operating system, fidorOS, and launched a financial community which today is the

bank's core asset regarding customer interaction, and for sure one of the biggest financial communities in Germany.

While developing the functionality and support for the launch of the formal bank, fidorOS acted as a community platform for users to come together and discuss finances. This was a crucial step, because it created the foundation for the community of like-minded users that would eventually be rolled into the bank itself. Even today, a person doesn't have to be a Fidor bank customer to participate in the community.

HOW FIDOR DELIVERS ON THE PROMISE OF MODERN BANKING

Key Research Question

2

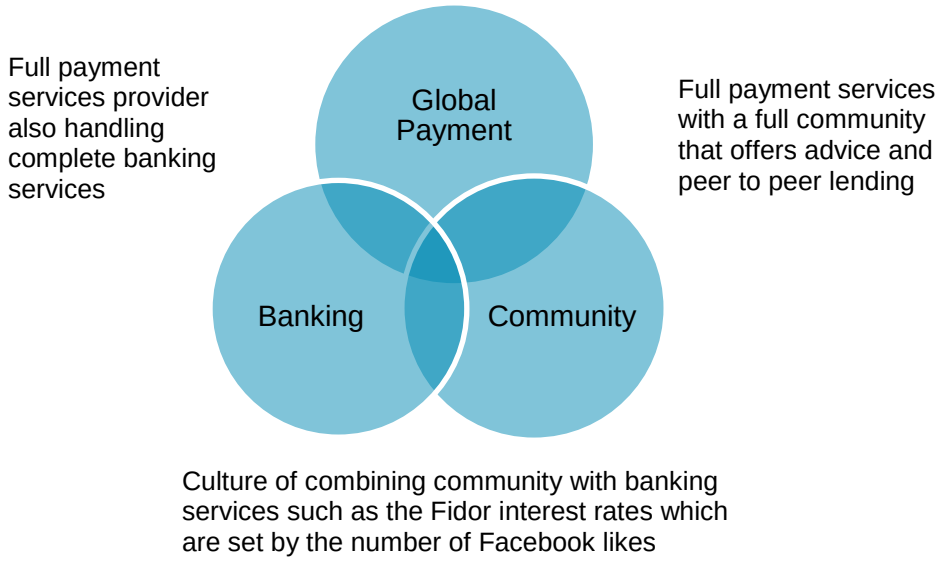
What is Fidor doing to reinvent banking?

Fidor combines three different businesses (payments, banking, and IT), taking complete control of an innovative suite of products and services

Fidor launched its formal bank operations in 2010 with the motto “banking mit freunden,” (banking with friends) a community-first commitment to making banking more fun. The existing community allowed Fidor to transition smoothly into its role as a financial services provider, acquiring new customers from a group of users that were already accustomed to its trusted brand. While incentive structures and other mechanisms to encourage participation have been crucial to moving users towards higher engagement, the value proposition of the institution is closely tied to the strength of its community.

Fidor Bank combines community, payments, and banking to provide an experience tailored to the needs of the digital consumer (see Figure 1). By taking control of the entire process, providing technology, payments, and banking services, Fidor is able to create an integrated experience with complete control over the products and services suite.

Figure 1: Fidor Bank View of the Value Proposition



Source: Fidor Bank

Owning the technology, the payments processing, and the banking license allows Fidor to be significantly more agile and flexible in the market than most of its competitors. The bank strives to create a healthy ecosystem of partners and internal development to maximize the strength of its business. It understands that financial institutions can't do or be the best at everything, but by creating an environment of openness, as well as owning the entire infrastructure, a bank can create an experience that is truly innovative.

Community Involvement

Fidor Bank's motto is "banking with friends." Executing on that vision has meant building an extensive and engaged user community. Since 2009, it has spent more than €100,000 on marketing through social media, pouring a large amount of resources into making a name for the brand through Facebook, Twitter, and others. The CEO himself is an active participant, engaging with customers through social platforms. Crucially, members of the community do not have to be customers of Fidor Bank.

To grow the community and encourage involvement, the bank developed a standardized system for rewards and bonuses based on certain actions.

- Answering and posting questions will earn €0.10 per post.
- Creating a tutorial video for the website will earn a user €100, provided the submission is used on the Fidor page (i.e., within the account visible to all customers, which also creates some "fame" for the creator of that particular video).
- Suggesting innovative ideas garners the highest reward, with the bank giving out up to €1,000 for an idea it implements.
- Referring a friend to the bank rewards the user with €5. Once a friend becomes a user, the original user receives 7.5% of any bonus that new user receives (digital multilayer-marketing functionality).

This system has created a vibrant, highly engaged online community. For example, during the process of buying a house, it´s not uncommon to see posts on the community page about mortgages, advice, etc. Users can see ratings of different advisors, and have 24/7 access to assistance. There are more than 5,000 product ideas and service improvement suggestions on the website, more than 8,000 community ratings of advisors, more than 3,300 product ratings, and more than 8,600 pieces of advice how to improve one's personal financial situation by cutting cost. The average number of responses per question is around seven, and they typically come within the first ten minutes of the posting, irrespective of the time of day. Fidor Bank itself does not provide advisory or consultancy, but instead moderates the community actively and helps with methodological advice.

Figure 2: Community Platform Features

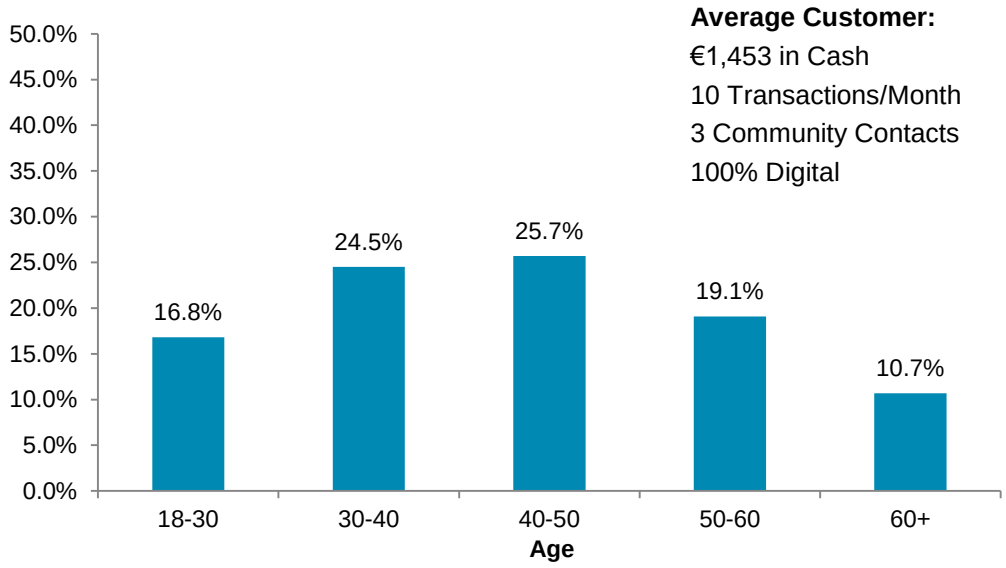
Source: Fidor Bank

Zins Social Interest Program

Fidor integrates the users and customers in setting the prices. One way is leveraging social media to affect the interest it gives customers through a social interest program. Since the platform is tied to Facebook, the bank can adjust interest on deposits based on the number of "Likes" the Fidor page receives. The Zins Social Interest program starts users off with a minimal rate of 0.5% annually, but by the 25th of the month, if the number of Likes exceeds a certain number, interest rates on deposits go up for the remainder of the year. For example, 22,000 Likes corresponds to a 1.5% interest rate. At the end of the year, the interest resets and starts again on a monthly basis.

The second way of integrating the customer into the pricing is the so called "interest rate consensus group" within Fidor's own community. In this group, Fidor management discusses upcoming changes in interest rates with the users. The objective is to find a fair price for loans and savings following the principle of "treat the customer as a co-manager and the customer will behave like a co-manager." Experience shows that customers are less "generous" and quite strict in pricing compared to management's suggestions.

Figure 3: Age and Average Characteristics of Fidor Customers



Source: Fidor

The demographic structure of the community is far more diverse than one would anticipate from the outside, underlining the potential of social-media-based services.

The community platform has been an integral part in driving deposit growth within the bank. Fidor notices a positive correlation between activity in social channels and number of products owned as well as total deposit account balances. The more posts a user has, the more likely they are to recommend the service to a friend. By engaging users through a community, Fidor has created an extremely sticky service.

Registration and Products

Fidor takes a different route to customer acquisition, essentially separating the forum community from the bank itself, while providing a natural route to customer conversion. Signing up for the community alone can be done through Facebook Connect, using existing credentials to be registered in less than a minute. This allows the user to interact in the community and gain points (e.g., within Fidor “Community Karma”), but not transact or take advantage of any financial services.

The next step up is KYC light. Similar to PayPal, users can access a prepaid eWallet which enables P2P payments, as long as there is a referral account used as a source of funding. The service is subject to regional AML regulations, limiting monthly amounts.

To become a customer of Fidor Bank requires a full KYC process similar to any traditional institution. Fidor’s featured product and central platform for any other service is the Fidor SMART current account; it covers both retail and corporate clients. Within that Fidor Smart current account, the Bank also offers products like ePayment system, FidorSave (which provides high interest rates with day-to-day money and fixed deposits/CDs) and FidorCredit, offering an overdraft or a short-term mini-loan at fair rates. The process for becoming a full bank member has been extremely successful, with around one in three community users becoming bank customers. (The original plan was to achieve one out of ten.) Each new community user acquired by the community platform costs the institution around €3. Customer conversion to full banking services costs €29 on average across SMEs and retail.

Table 3: Capabilities by Account Type

	SIMPLE REGISTRATION	KYC LIGHT	FULL KYC
COMMUNITY FORUM ACCESS	☑	☑	☑
SENDING MONEY WITH FIDORPAY	☒	☑	☑
SENDING MONEY TO OUTSIDE USER ACCOUNT	☒	☑	☑
"LIKE" INTEREST RATES	☒	☒	☑
SENDING MONEY EVERYWHERE	☒	☒	☑
FIDOR PREPAID MASTERCARD	☒	☒	☑
FX	☒	☒	☑
PRECIOUS METALS	☒	☒	☑
SAVINGS CERTIFICATES	☒	☒	☑
P2P LENDING	☒	☒	☑
VIRTUAL CURRENCIES	☒	☒	☑
INTERNATIONAL REMITTANCE	☒	☒	☑

Source: Fidor Bank

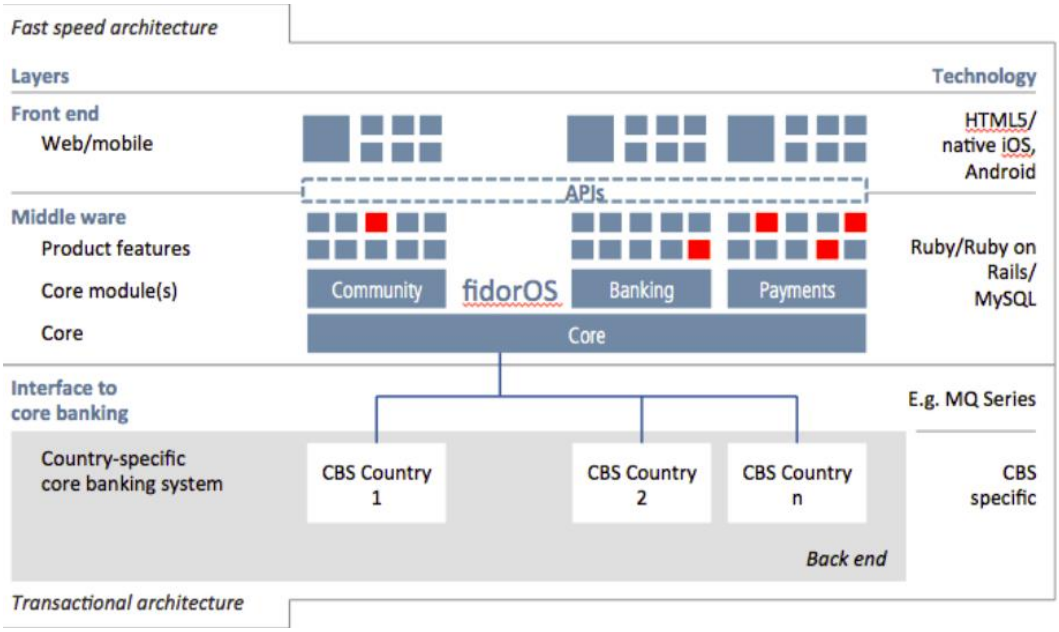
FidorTecS and fidorOS

fidorOS is the proprietary platform built by Fidor and owned and operated by FidorTecS. It's the lifeblood and central nervous system of the bank. The original fidorOS platform was built to house the community that would eventually become Fidor Bank. After the bank was launched, the growth and success of the platform led Fidor to form a separate tech organization in 2013 called FidorTecS. The platform's success has spurred interest from other institutions, and today FidorTecS white-labels the operating system for other organizations. Fidor TecS has more than 50 employees with customers in four countries. One key rationale for carving out Fidor TecS was the employee value proposition: Fidor believes that good developers want to work for a technology company, where they are part of the strategic core business, rather than for a bank, where they're more likely to be seen as support staff.

fidorOS is a modular banking platform developed by Fidor TecS which enables social and real-time functionality through an open RESTful API infrastructure that allows for the integration of third party financial services. The software itself is middleware built on top of a local core banking platform called Bancos (by German G&H) and developed on Ruby/Ruby on Rails using MySQL. While it performs the functions of a core banking system, it is actually built so that it runs on top of an existing core banking system — a hugely difficult task that Fidor has accomplished several times in different countries. This gives Fidor the power of having built a brand-new system (Fidor can move quickly, and

adapt to emerging consumer trends) without the burden of maintaining legacy systems in multiple countries.

Figure 4: fidorOS Open Architecture



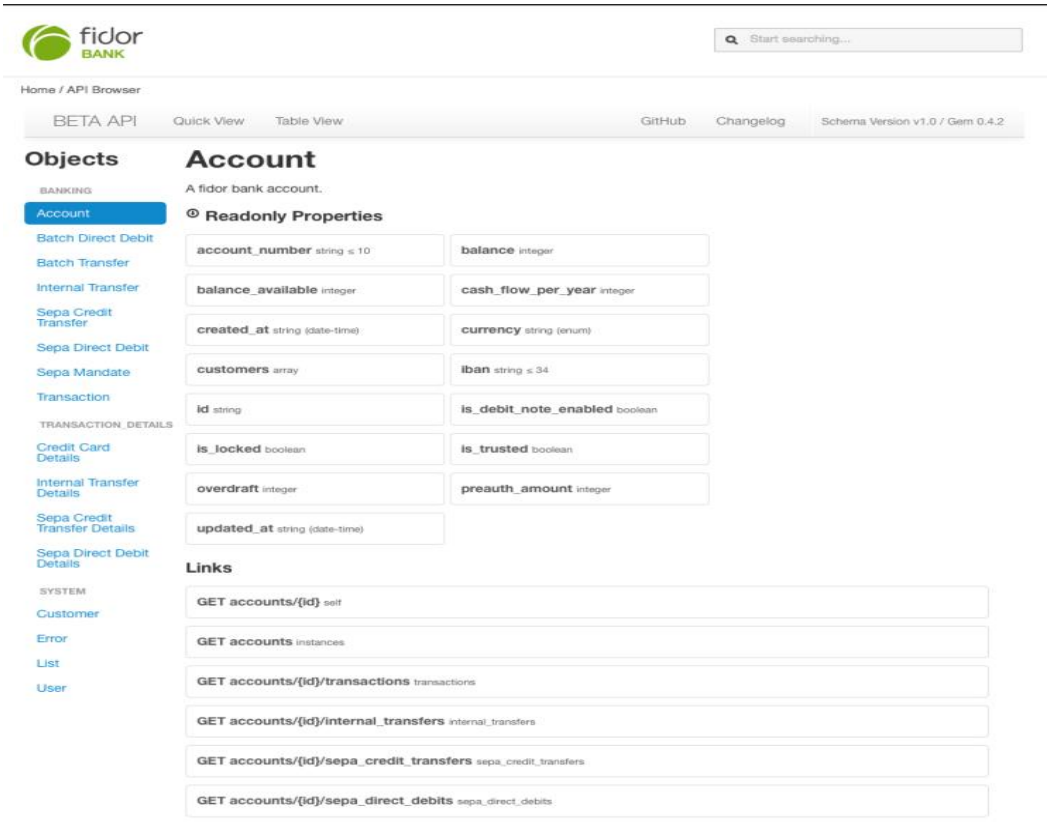
Source: Fidor Bank

Two-speed architecture allows the bank to handle real-time transactions, payments, loans, or instant money transfers using an email address, mobile phone number, or Twitter account. fidorOS acts as the gatekeeper for all the other capabilities and processes that go into the bank, with the core underneath integrated as much as possible through APIs. The APIs are a critical part of delivering emerging needs that are requested from the community.

fidorOS enables trusted third parties to integrate their apps as so called “in-account apps” using a standardized API infrastructure. By this, Fidor Smart Current Account becomes a marketplace, offering not only Fidor functionality but also solutions of outside partners — in the same account, integrated with minimal friction.

Shown in Figure 5, FidorTecS uses an API browser that includes all the offered and documented APIs. The Financial Open eXchange Initiative (FOXI) provides the standardization to create these applications within fidorOS. In keeping with the same philosophy of simplicity that it applies to customer accounts, Fidor attempts to keep its API library transparent, browsable, and easy to implement, rather than having APIs that are only machine-readable and may take 12 to 18 months to implement.

Figure 5: API Browser

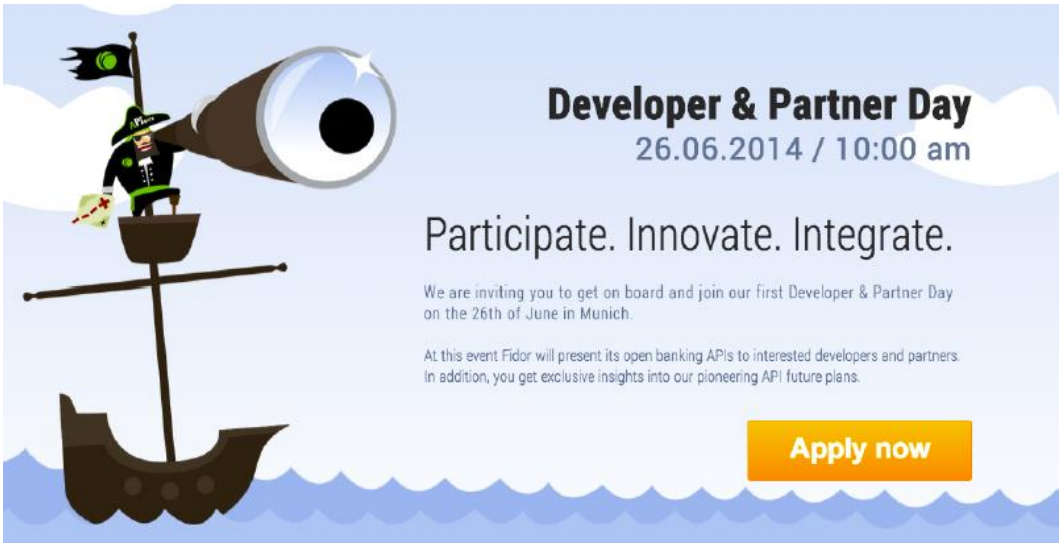


Source: Fidor Bank

The creating of the API infrastructure allows Fidor to engage in community development programs, such as the Developer & Partner Day, which takes place internationally in Munich, London, Copenhagen, and Moscow, among others.

Opening its APIs up to third parties, the bank can leverage developers and partners to create a range of differentiating functionality that is then rolled into the larger bank offering.

Figure 6: Fidor Exploring the Power of Developer Communities



Source: Fidor Bank

Fidor Smart Current Account

FidorPays' main product is Fidor Smart Current Account, a full stack banking account including functionalities of a prepaid e-wallet (for KYC-light customers) that can be used via web or several mobile apps (iOS and Android). Once users have transferred funds into their account, they can send money to other Fidor customers. But they also can use it for a series of additional offers:

- Real-time payment within closed loop.
- Account to account transaction.
- Free sending and receiving.
- No subaccounts needed (e.g., for using FX).
- Lend money to friends via social media, crowdfinance.
- All types of transactions (card, account, etc.) in one transaction view.
- "Process beats price" Fidor's 60-seconds-banking.
- Loans and savings.

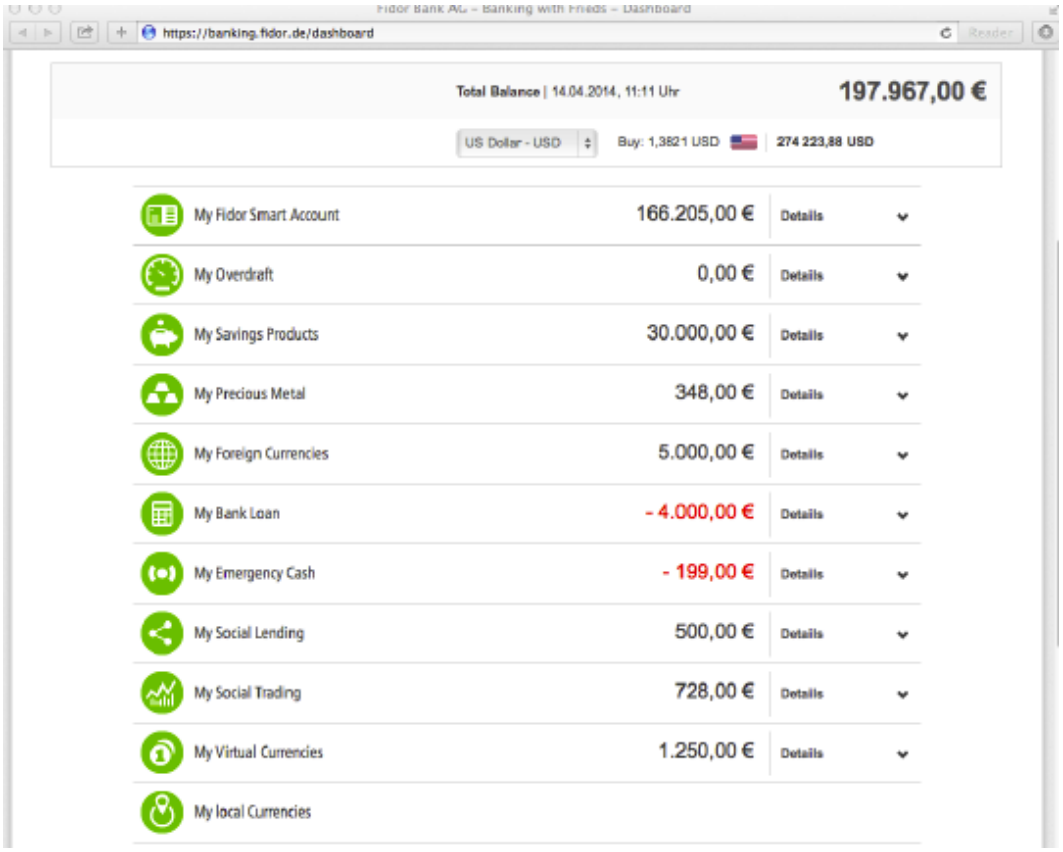
Depending on the specific regulations, Fidor Smart Current Account comes as an eWallet or as a full stack banking account. If there is a fully KYC process completed, it acts as an account, offering all solutions. If not, it follows e-money regulation and comes as an eWallet with limited access to Fidor's solutions.

Fidor Smart Current Account is the primary service for aggregation of all the user's assets, including all currencies (including virtual), investments, cash, etc. The bank believes it is the first in the world to have a multicurrency banking-regulated eWallet and account.

The account allows users to buy currency, make payments, and view balances in GBP, USD, CHF, NOK TRY, PLN, AUD, and NZD. The company achieves this through API integration with Currency Cloud and fidorOS. Also, users easily can buy precious metals like Gold, Palladium, Platinum, or Silver — all within 60 seconds. They even can send precious metals and multicurrencies to other users' email, mobile number, or personal Twitter domain.

Shown in Figure 7, the account aggregates all user assets representing purchasing power, including alternative assets like loyalty schemes e. g. Flyer Miles, precious metals, or potentially even gaming currencies like World of Warcraft gold or crypto-currencies.

Figure 7: Fidor Allows Users to See All Their Assets in One Place



Source: Fidor Bank

Ripple and Bitcoin

In 2014 Fidor Bank became the first fully licensed bank to integrate the Ripple protocol into its payments functionality. Ripple is a payment network developed by Ripple Labs. It´s built using the same underlying principles as Bitcoin and other cryptocurrencies, an open source, distributed, consensus ledger to make secure payments. Fidor plans to use Ripple to allow customers to make global money transfers while leveraging the near-real-time settlement capabilities to enable inter- and intrabank payments. This will be of increasing importance the more international Fidor Bank becomes.

Fidor also participates and supports Bitcoin transactions, currently set up for Kraken/Payward, or the Bitcoin.de exchange. With Bitcoin.de, Fidor realized an API-supported real-time settlement process that allows Fidor customers to trade their Bitcoins instantly by leveraging Fidor's API infrastructure. This makes Bitcoin.de the only Bitcoin trading platform with a direct interface to the classic banking system — powered by FIdor. Bitcoin transactions soon even could be shown within the Fidor SMART account, but no Bitcoins are stored.

Ecosystem

Creating an ecosystem of partners, developers, and white-label customers is one of the key value propositions of the institution. Banks can't do everything for their customers, and there's a constant stream of new innovative services coming to the market. Many

traditional institutions view these entrants as threats, even though they often add value to the financial lives of the consumer.

With this in mind, Fidor has developed an ecosystem that allows it to expand its breadth of products and services through partnerships. Examples include a P2P application from Smava, hyperWALLET, to provide global payments capabilities, the media firm Bertlesmann for distributing online virtual games, and Currency Cloud for foreign exchange. The fidorOS platform and API enable the bank to integrate into existing services (e.g., as an “in-game-wallet” or “in-community-account”) or have those services integrated in its digital platform. Fidor is both a supplier and a consumer of products and services with ecosystem partners.

Table 4: Fidor TecS Partnership Levels

LEVEL	PARTNER TYPE	DESCRIPTION
1	API partner	Run a mobile/web business or create a mobile/web app on top of fidorOS API.
2	In-Account-App partner	Create an application/solution along FOXI standard which will be available within Fidor Smart Current Account´s app store.
3	Implementation partner	Implement, customize, and integrate fidorOS.
4	Operating Partner	Operate fidorOS in a data center.
5	fidorOS Reseller partner	Resell fidorOS licenses.

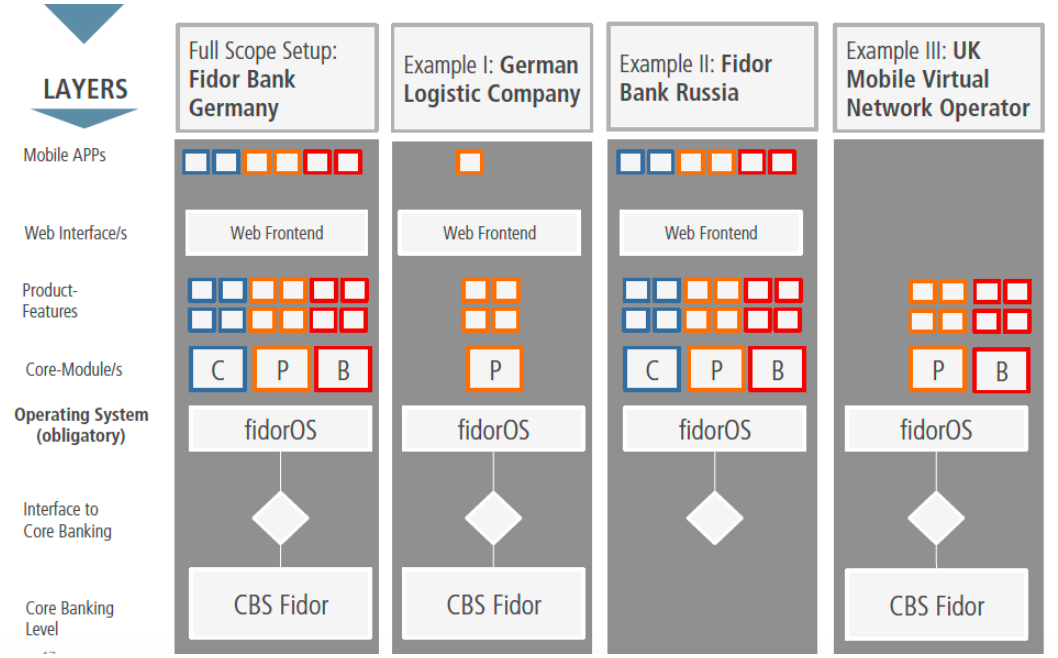
Source: Fidor Bank

The ecosystem also extends to white-labeling, where Fidor TecS is able to provide a customized version of fidorOS to other banking and retailer institutions, acting as a full third party provider. Customers are able to leverage the API infrastructure and customization options to not only build a look and feel specific to the institution, but also design accounts that are targeted specifically for the needs of its customer base.

Fidor TecS currently has three white-label deployments running on top of two different core banking platforms. Fidor TecS does not alter the host core, it merely provides connectivity to it so that the front end functionality can be implemented seamlessly. As the number of third party and Fidor Bank deployments grow, the network effect will create an even stronger ecosystem, as more developers are able to leverage the platform to create a wider range of apps and services. The open API infastructure and modular architecture provide an attractive option for third party developers and IT providers.

Deployment and integration is handled internally by Fidor, but the bank is forming partnerships with systems integrators, such as the European firm, GFT. It offers hosted and on-premise implementations depneding on the need.

Figure 8: Fidor White-Labeling



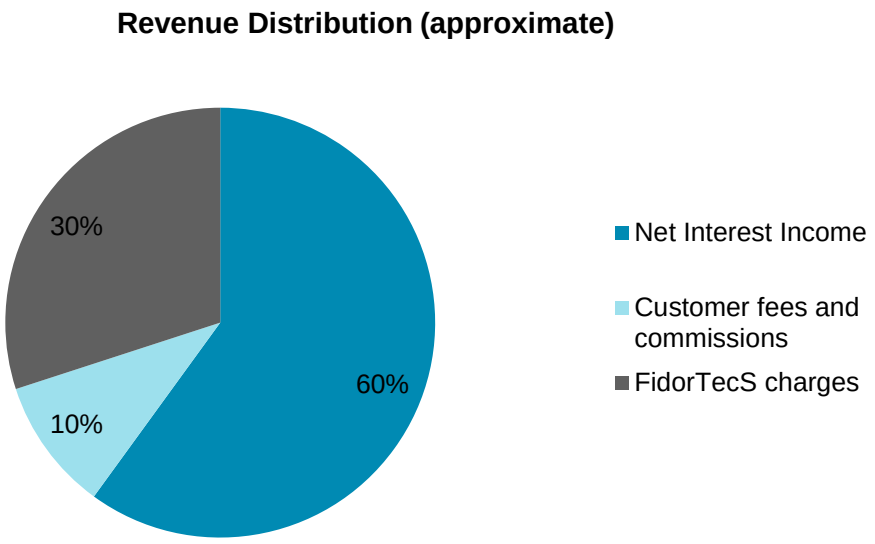
Source: Fidor Bank

Revenue Model

Fidor makes most of its money the way most banks currently do: through net interest income and fees and commission. Its third income stream, however, is nontraditional and significant: tech-related activities from FidorTecS.

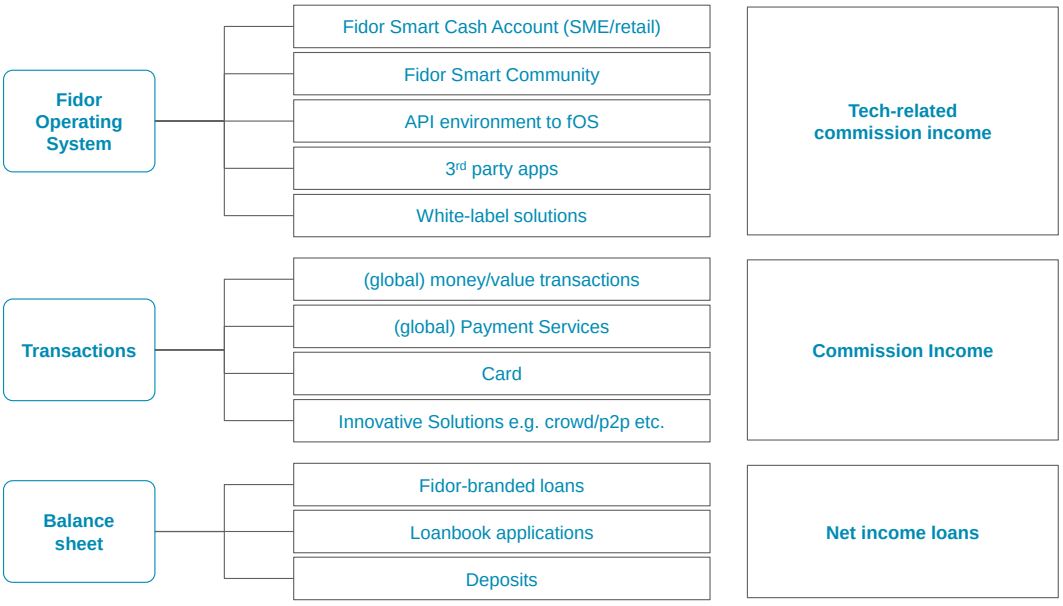
The revenue breakdown is shown in Figure 9.

Figure 9: Fidor Revenue



Source: Fidor Bank

Figure 10: Business Model Revenue

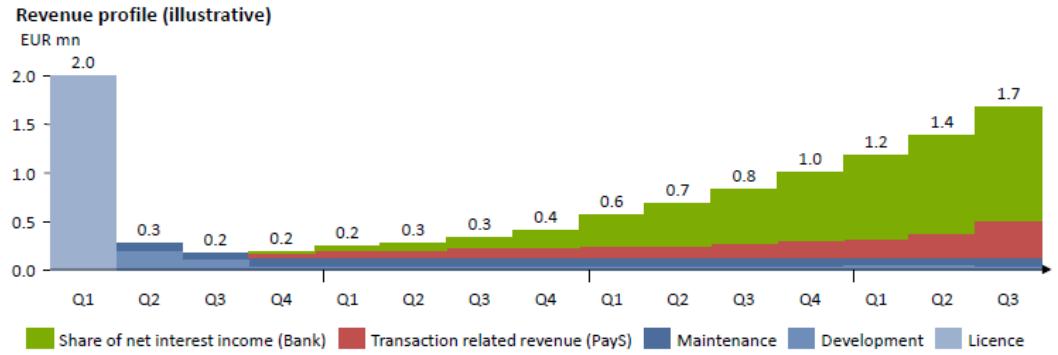


Source: Fidor Bank

The pricing model uses a traditional mix of software license, implementation/integration, and maintenance as a percentage (15%) of the license fee. If applicable, Fidor will explore revenue sharing from the business generated off the platform.

White-labeling the banking product can be an enabler for strong revenue growth. As the partnership grows, initial technology income gives way to shared revenue from the partner's business growth. In the model in Figure 11, transaction-related revenue and net interest scale significantly over time, acting as a significant source of residual revenue. By this entrepreneurial strategy, the company aims to achieve a healthy mix of one-off and recurring revenues.

Figure 11: White-Label Revenue Model



Source: Fidor Bank

Regulations

Fidor Bank is a registered German entity. It therefore has full portability to other European Union countries, meaning that it can operate throughout the EU. When other entities license technology, they keep the responsibility for complying with local regulations.

Data Analytics

Fidor has been actively experimenting with data analytics, partnering with Alexander Thamm for business analytics to create highly targeted offerings tailored to the characteristics of the user. The bank tracks user interaction, connections, and activity to create Fidor Karma, a community rating that allows Fidor to offer products that are linked to behavior. Fidor Karma measures community contribution, raised questions, answered questions, social media profiles integrated into the banking profile, connections with other community users, etc.

Fidor Karma is also useful within peer to peer lending and crowdfinance. As a consequence, Fidor Karma is a social media profile that drives economic reputation.

The applications within social media open up a range of opportunities to explore new methods for credit scoring and tracking engagement.

Geographic Expansion

Banking services from Fidor are currently only available in Germany, but the bank plans to move into other geographies going forward, namely the US and the UK (Q2 2015). Market entry can be difficult, and it generally approaches an opportunity in one of three ways:

1. Using the European license. This is restricted to Europe (300+ million inhabitants), but allows the German license to be valid in other countries, as long as local regulations are met.

2. White-label partners. This would make the bank instantly global, as it would use a local bank's license but provide the platform and underlying technology. The brand, however, would not be Fidor.

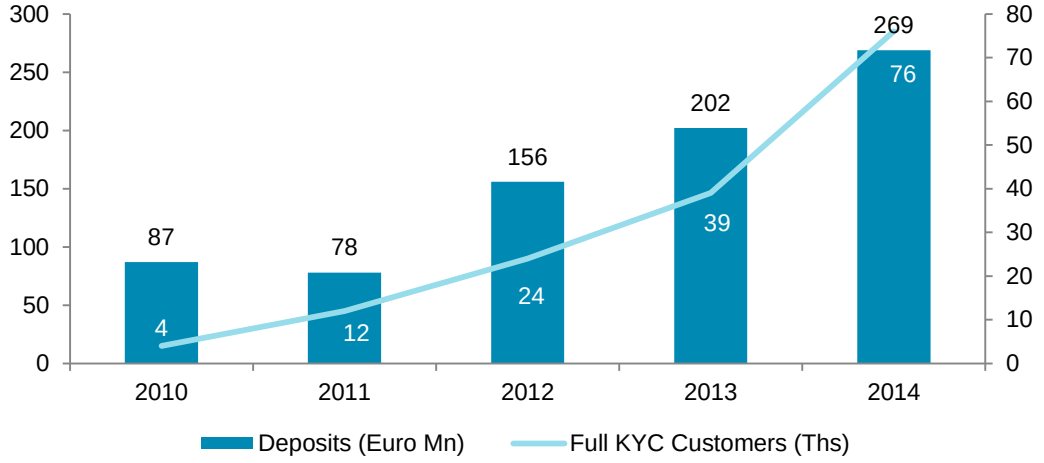
3. Fidor brand through franchise. Local partnership for regulations, core, and license, but using all the fidorOS technology and Fidor brand as well as leveraging on Fidor´s social media / digital experience and reputation. This is the entry strategy for the US and Asia.

Fidor's ambition is to be global. Its acceptance of a wide range of currencies and its integration of services like Currency Cloud and Ripple show its intention to expand.

Fidor Success to date

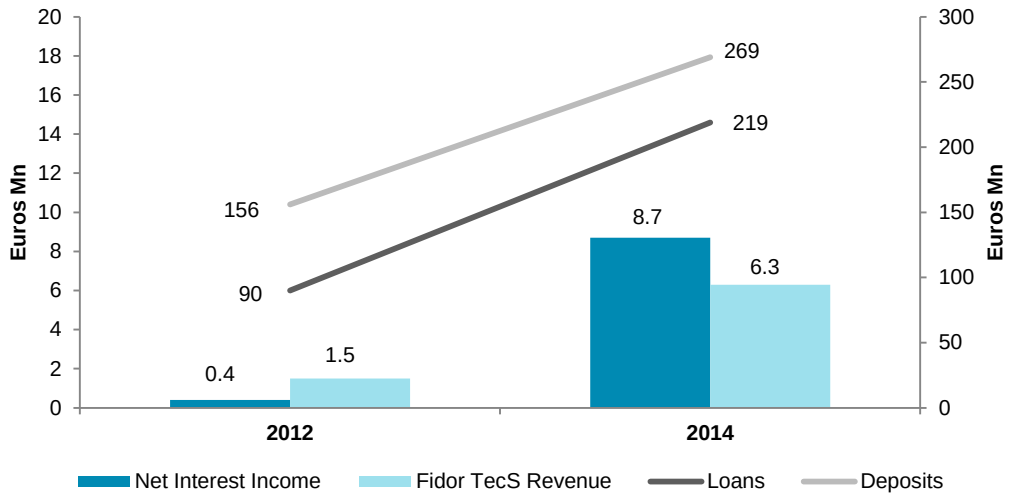
Customers clearly value what Fidor Bank has created, and the bank has architected for continued success through a highly flexible and streamlined operating system. As shown in Figure 14 on page 20, the number of transactions within the bank has increased exponentially over the last couple of years. According to recent surveys more than 35% of the users are now using Fidor as their primary bank, an exceptionally high number.

Figure 12: Growth of Customers and Deposits



Source: Fidor Bank

Figure 13: Business and Revenue Growth



Source: Fidor Bank

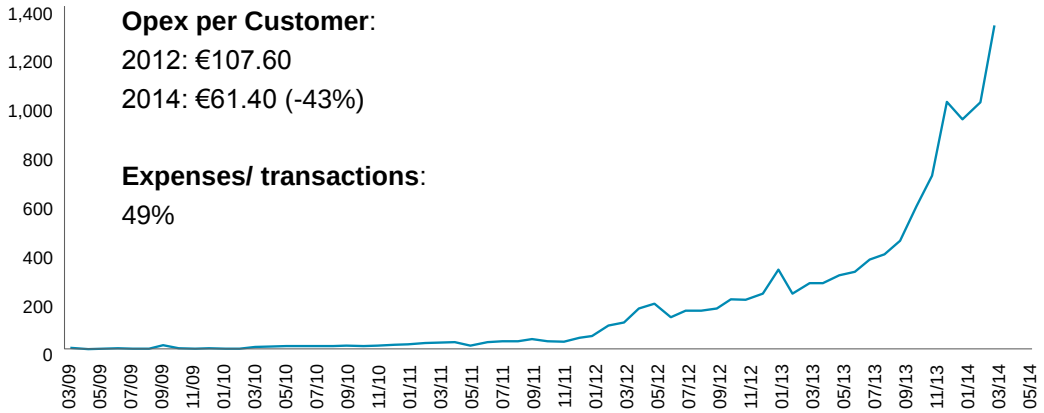
Much of this success stems from converting users of its community platform to customers. Fidor's goal at launch was to convert one out of every ten community forum users. Over the last year, it has been able to convert one in three.

Table 5: Fidor Success

METRIC	RESULT
COMMUNITY USERS	270,000+
RETAIL CUSTOMERS	76,000+
BUSINESS CUSTOMERS	5,000+
LOAN BOOK	$250 million+
DEPOSITS	$300 million+
COST PER NEW CUSTOMER (CPC)	< $35
IT COSTS PER USER	< $15

Source: Fidor Bank

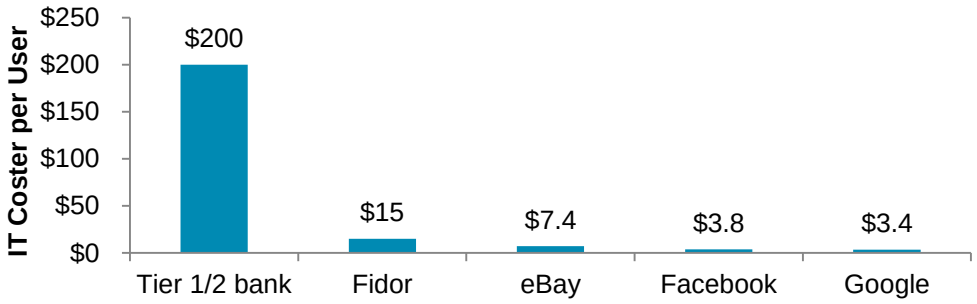
Figure 14: Transaction Growth Since 2009



Source: Fidor Bank

The success of Fidor Bank goes beyond simple adoption, boasting one of the leanest bank operations worldwide. Shown in Figure 15, IT costs per user are more in line with leading tech companies and around 10–15X less expensive than typical tier one or tier two banks. New customers cost Fidor €29; only €3 if they sign up via the community forum.

Figure 15: Fidor´s IT Cost per User Is Closer to a Tech Company than a Bank



Source: Fidor Bank (Celent has not independently verified these figures)

CASE STUDY: FIDORPAY EMERGENCY LOANS

In August 2013, Fidor Bank launched an entirely new service call FidorPay Emergency Loans, offering instant payday loans of up to €199 for 60 days. It is available for all customers through the web or mobile phone, and the whole process is automated to provide instant account crediting following Fidor's philosophy of 60-second banking.

The initiative transformed a complex credit process (application, scoring, check, decision, customer-signature and payout) into a highly automated and industrialized product with straight-through processes, social network integration, and mobile functionality.

Through this initiative, Fidor successfully extends its reputation as a modern digital institution providing convenient and useful digital products to its consumers. The number of new loans exceeds 37,000, and as the first proprietary loan product for the bank, should open up a wealth of opportunities to leverage the customer data going forward.

The bank credits the success of the project to three distinct factors:

1. Interdisciplinary interplay between business and IT departments.

2. Support of real-time bookings and transactions and scoring procedures by banking platform fidorOS.

3. Intense integration of feedback that the Fidor smart community provided during the whole process.

Opportunity

Fidor wanted to expand its current breadth of offerings into loan products. The issue, however, is that offering consumer loans of values greater than €5,000 opens customers and the bank up to significantly more exposure. For institutions with substantial loan volumes, the amount of data captured is robust enough to ensure that proper steps are taken to underwrite high value consumer loans. Young Fidor Bank needed to build this database of historical data. By using a smaller and less risky loan vehicle available automatically and frequently, the bank could begin to assemble a database to use for future products.

Fidor Smart Current Account was also created based on consumer demand for easy loans. Fidor wanted to deliver a loan product that would meet demand while mirroring its approach to digital banking, making the process highly automated, available through a mobile device, and integrated into social media. To make this a reality, the loan product needed to be attractive to all users, not just a specific customer segment.

Solution

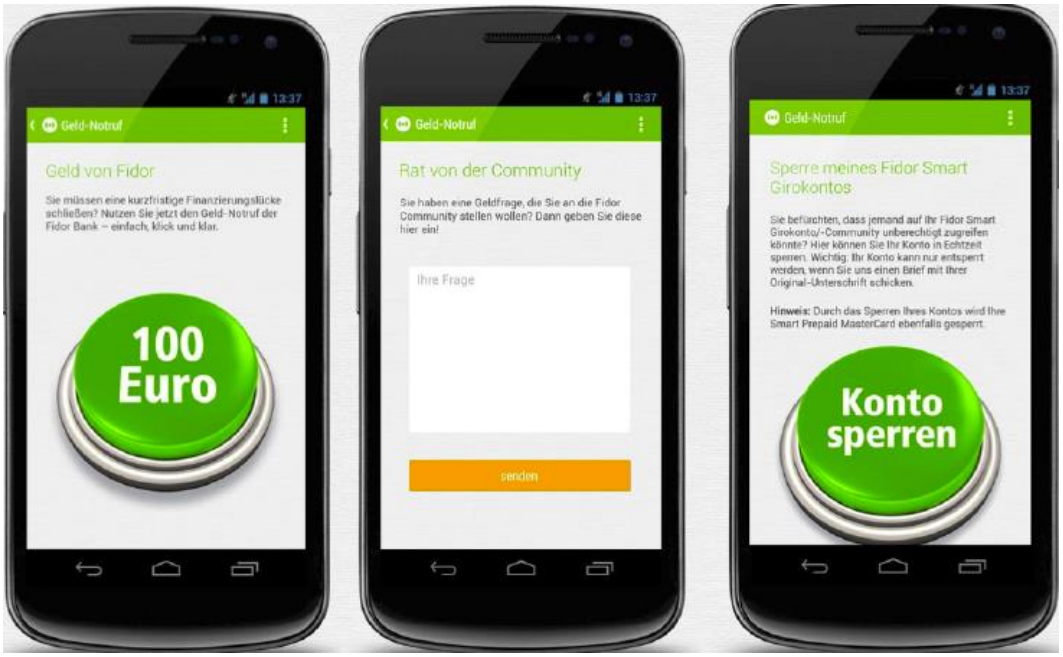
The model for FidorEmergency Loan is intentionally simple. A customer in need of an emergency payday loan would use either the mobile app or the online banking platform to apply for either €100 or €200. The decisioning process is handled instantly, approving or denying the loan on the spot. Approved loans hit the customer's account and can be used almost immediately. When the loan matures, the principal amount, together with a fee of €6, is withdrawn from the current account automatically. Customers with a repayment rate of more than 99% will receive a €1 reward for paying back the loan before the date of maturity.

Three key aspects of the Fidor Emergency Loan are particularly innovative:

- **Straight-Through Processing and Industrialization**: The complete credit process (applying, scoring check, decision, and pay-out) take place in less than 60 seconds. Depending on the load time, the process can take only a few seconds. The workflow takes the process from a person-to-person interaction to a person-to-machine transaction. The outcomes are separated from any kinds of manual disruption or biased decision-making on the part of the lender. The automation baked into the process is possible through the fidorOS platform, which enables the integration between the core, customer account, scoring systems, and back office to deliver immediate responses.
- **Mobile**: Customers in cash emergencies tend to find themselves in contextual situations where mobile is the only channel available. Out shopping, dining, or with friends are instances where emergency loans are used the most. In addition to applying for the loan, users can contact an emergency advisor or block an account or card.
- **Social Media**: The Fidor Bank community of more than 270,000 users also offers a crucial platform for borrowers to ask for assistance with repayment, savings, preventing emergency situations, etc. These users have been an active and important part of creating the culture around Fidor and are integral to the success of current and future loan products.

Figure 16 shows the process of applying and receiving the loan. The user interface is simple by design, allowing rapid fulfillment.

Figure 16: Mobile User Experience



Source: Fidor Bank

For underwriting, Fidor considers some of the following criteria:

- Transaction volume on the account within the last 12 months.
- Activity in the account.
- Active usage of the community.
- Emergency loan payment history.
- Amount of money in moment of application.

The project was entirely internal, using a team of eight from Fidor Bank, one from Fidor PayS, and two from FidorTecS. External advisors were brought in for perspectives and expertise related to data analytics, but the development and strategy were driven entirely by Fidor. The biggest challenge internally was creating the automation around the loan product for mobile and web. Complying with regulations and legal considerations posed a challenge, as there was no historical data for the transaction, yet it was completely automated. Mitigating these concerns was mostly an issue solved by the low volume of the loan, as well as some of the safeguards put in place after a default.

Results

The FidorPay Emergency Loan has been a hit among consumers, but also allows the bank to collect data to move towards offering more advanced loan products. Currently, more than 37,000 emergency loans have been created, with almost 5,000 active emergency loans. Default rates hover around 6% with a decreasing tendency due to the high maturity status of the database and improvements in scoring. The product is one of Fidor´s most popular and currently the second most discussed topic on the community forum.

The loan data has already enabled the bank to launch additional loan products. In April 2014, the bank introduced overdraft loans. In the future, the bank plans to increase the number of loan products available as the historical data becomes stronger.

WHAT CAN OTHER INSTITUTIONS LEARN FROM FIDOR?

Key Research Question

3

What can other institutions learn from Fidor?

Fidor is redefining the customer experience by taking advantage of architectural openness, partner ecosystems, and a community focus

Fidor Bank had the luxury of starting a bank from scratch. This let it develop a state of the art core system, unencumbered by the legacy code that hampers most incumbent institutions. There are nevertheless a host of lessons that Fidor's approach offers other banks, no matter their maturity or current situation. Many of these seem common sense, but are hard to implement. With banks like Fidor showing the way forward, however, incumbents are put on notice that it's not only non-banks pioneering customer experience and community, but regulated entities as well.

Focus on the Customer

As trite as it may sound, lip service is all that many banks pay this imperative. Silos and turf wars don't help, but all too often customer-centricity means "What can I sell *that* customer?" rather than "What are the customer's needs, and how can I help?"

Facilitate Community

Banks don't have to be at the center of everything. Moderating a community lets Fidor avoid licensing headaches while letting customers increase their feeling of involvement. The positive knock-on effects create goodwill and are long-lasting.

Give, Don't Just Take

Fidor gives its customers meaningful amounts of money when they create value. Not only does it let Fidor learn about interesting value-creation ideas, it also generates tremendous customer goodwill at a relatively low cost.

Embrace the Ecosystem

Recognizing that it can benefit both by providing services to others and consuming good ideas not invented here, Fidor punches above its weight. Fidor has built ecosystem interaction and connectivity into both its business model and its technology, so that deals that might be bogged down in procurement elsewhere will flow smoothly through the bank.

Simplify, Simplify, Simplify

Making the front end customer experience simple has become almost axiomatic, but its difficulty is in direct proportion to the complexity of the back office. As banks make changes to their systems, whether incremental or monumental, they should be considering how this will lead to a simpler system down the road.

Architect for Flexibility

One way to think about being flexible is that you keep your options open (or, to be more pedantic, you create real options). No one should be creating a new legacy headache

that will haunt their successors. It's clear that predicting the future is extraordinarily difficult; the best way to be prepared for it is flexibility.

Be Humble

Our final recommendation concerns your mindset. Recognize, like Fidor, that you don't have all the answers. Your customers, your partners, and your competitors have valuable insights that you can learn from — but only if you're willing to.

Was this report useful to you? Please send any comments, questions, or suggestions for upcoming research topics to info@celent.com.

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If you found this report valuable, you might consider engaging with Celent for custom analysis and research. Our collective experience and the knowledge we gained while working on this report can help you streamline the creation, refinement, or execution of your strategies.

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Typical projects we support include:

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