

BREAKING NEW GROUND IN FINTECH

A PRIMER ON REVENUE MODELS THAT
CREATE VALUE AND BUILD TRUST






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EXECUTIVE SUMMARY

Today, fewer than 30 percent of US households are financially healthy.¹ This means more than 170 million US adults struggle with some aspects of their financial lives, such as paying bills on time or saving for emergencies. At the same time, financially struggling Americans pay roughly \$175 billion annually in fees and interest for financial products and services,² which too often fail to improve their situations.

Addressing this financial health challenge is an important priority for the country and also a business opportunity. An emerging cohort of entrepreneurs is seizing this opportunity by applying technology and developing new financial products and services designed to help consumers manage their finances more effectively, including how they earn, spend, borrow, grow, transfer, and safeguard their money. With the right combination of these tools, the average household, with a median post-tax annual income of about \$45,000, could conservatively realize \$2,000-\$3,500 or more in economic benefits per year.

Yet the market is deceptively difficult to crack. One of the most significant challenges for financial services companies is establishing trust with consumers, who rank the sector as the least trusted of any major industry.³ Consumers specifically highlight revenue practices (e.g., hidden fees and unwanted selling) as top sources

of mistrust.⁴ How financial providers make their money profoundly affects mass market consumers' perceptions of whether service offerings are in their best interests. Revenue models are thus foundational to establishing and retaining trust, making an early focus on revenue model strategy paramount to unlocking the financial health market.

Developing a successful revenue model strategy that reinforces, rather than threatens, consumer trust and promotes financial health is not easy. Doing so well, however, holds significant potential to help new entrants secure a long-term competitive advantage.

Omidyar Network and Oliver Wyman set out to investigate current revenue practices among financial health entrepreneurs. The goal was to uncover specific emerging practices that successfully align revenue with value creation for consumers on a sustainable basis. It is our hope that these practices can serve as inspiration for both entrepreneurs and traditional financial services providers that seek to bring better financial health solutions to the market.

To support founders in this effort, this report provides insights for entrepreneurs and others in the FinTech ecosystem regarding financial health revenue models that generate sustainable income

while also creating consumer value and preserving trust.⁵ The research included an outside-in review of 350 leading FinTech companies; interviews and ideation sessions with more than 50 FinTech executives, investors, and other leading industry experts; and focus groups and digital diaries with dozens of consumers across income ranges and geographies.

Companies are still experimenting with these revenue models, and there are no runaway IPO success stories that have established a winning blueprint. There is, however, a growing body of lessons learned about how to successfully construct financial health-aligned revenue models. The report presents them in three clusters of insights, which we summarize here.

FINTECH REVENUE MODEL LANDSCAPE

Section two of the report covers insights gleaned from the broader FinTech market landscape. An entrepreneur's first decision when devising a monetization strategy is to decide what value is created and who should pay. There are three basic payer options: consumers themselves, third-party sellers who want access to consumers, or third-party beneficiaries who derive value from better-served consumers (for example, employers who

1 "The US Financial Health Pulse; 2018 Benchmarking Survey," Center for Financial Services Innovation, (Forthcoming 2018).

2 Eric Wilson and Eva Wolkowitz, "2017 Financially Underserved Market Size Study," Center for Financial Services Innovation (December, 2017).

3 "2018 Edelman Trust Barometer Global Report," Edelman, (2018).

4 "2018 Edelman Trust Barometer: Financial Services Edition," Edelman, (2018).

5 We focus specifically on non-credit led models, in order to highlight frontier and less conventional monetization strategies. While credit is a major consumer need and the focus of many FinTechs, the revenue model for credit-led solutions is well-established. We focus on other ways entrepreneurs can help consumers – where the revenue model is less straightforward but the solution is less prone to the misaligned commercial incentives that sometimes exist for credit solutions.

see productivity gains from financial wellness programs, or merchants who pay interchange fees on credit or debit card transactions).

Entrepreneurs must also figure out how payments should be structured. There is no universal formula for success that holds across all business models, but to help entrepreneurs navigate their options, we identify eight different payment models and keys to success relevant across all of them.

The study finds, among other things, that charging consumers is far and away the most common model thus far, with 65 percent of the companies studied using that approach. In addition, the startups that have received the most funding from investors generally use technology to create more cost-efficient versions of well-established financial services, such as wealth management or money transfers. Unencumbered by legacy cost structures and profit margins, companies can in many cases charge fees lower than what consumers pay today and create better user experiences.

MASS MARKET FINANCIAL HEALTH: EMERGING REVENUE STRATEGIES

Section three of the paper takes a close look at how the revenue models of mass market-oriented, financial health firms differ from those of the broader landscape – and how frontier firms are devising new strategies in following these paths.

Three findings emerged. First, these companies aren't shying away from charging consumers directly; a greater proportion of mass market-focused financial health firms charge the consumer for their offerings than do FinTech companies as a whole. Frontier firms pursuing this strategy are shifting the emphasis from fee transparency (table stakes in building trust) to value clarity – a

critical next stage in gaining traction when the customer is asked to pay.

Second, in their selection of third-party seller relationships, these mass market firms are much more likely to rely on referral models than display advertising. Shifting the emphasis from advertising to advising helps these firms to resolve potential conflicts between the interests of sellers and the financial health of their consumers. In doing so they are transitioning referrals from just a source of revenue to a channel through which they can meet a larger set of their customers' needs, particularly nontraditional financial service needs such as increasing supplementary earnings and decreasing spending on day-to-day items.

Finally, mass market-focused firms are using a third-party beneficiary model much more often as a revenue model. This is due in part to greater emphasis on existing third-party beneficiary revenue pools, particularly interchange. It also is due, however, to a greater focus on developing new revenue pools from beneficiaries – for instance, employers – that could derive significant financial benefit from the improved financial health of certain consumers (in this case, their employees). Frontier firms pursuing this model are refocusing the narrative from how solutions are good for them (i.e., consumers) to how solutions are good for everyone (i.e., including the third-party beneficiary).

To provide a more in-depth examination of this diversity of approaches to the marketplace, this section of the report also offers case studies of 11 frontier firms, highlighting best practices in all three payer categories.

GUIDING PRINCIPLES FOR FINANCIAL HEALTH REVENUE MODELS

Finally, in section four, we present advice from founders and investors about how to effectively set guiding principles to embed

the commitment to financial health into a company's core strategy, culture, and processes. Founders need such guiding principles to help answer tricky questions such as how to mitigate any risks their revenue models present to customers, and which types of fees are unacceptable.

The specific principles will depend on the realities of each business and the beliefs of its founding team. As the business matures, these principles need to be embedded deeply enough into a startup's core strategy, culture, and processes – such as metrics tracked and decision criteria for new opportunities – to withstand the pressures that will arise with growth and scale.

FINAL CONSIDERATIONS

As the field matures, these frontier practices will evolve into tried-and-tested models that benefit consumers, partners, and investors alike. In parallel, the field itself and the viability of specific revenue models will continue to evolve – and potentially quite quickly – as technology progresses and new players such as the social media or e-commerce platforms enter the financial services market. FinTech founders will need to adapt their approaches accordingly.

Identifying a responsible revenue model is no simple task, and this paper does not point to an easy, off-the-shelf answer. Rather, our goal is to inspire entrepreneurs to invest early in developing sustainable revenue models. In doing so, they will build robust businesses that develop solutions to improve consumer financial health and have a permanent impact on the financial services industry.





SECTION 1

INTRODUCTION

The potential market for tools that help people improve their financial lives is substantial. According to an upcoming report from the Center for Financial Services Innovation (CFSI), fewer than three in ten US households are financially healthy.⁶ This means all other households lack the fully effective set of day-to-day systems necessary to weather shocks and seize opportunities such as buying a home or preparing for retirement. Financially underserved consumers are paying nearly \$175 billion annually in fees and interest⁷ for financial products and services that in many cases don't do enough to help them build financial stability.

The combination of emerging technology, creative entrepreneurs, and inspired

investors provides an opportunity to upend this status quo. An emerging cohort of FinTech startups is taking advantage of lower-cost digital operations and distribution, nimble innovation cultures, user-friendly tech buildouts, and the lack of legacy profit margins to help consumers manage their finances more effectively, including how they earn, spend, borrow, grow, transfer, and safeguard their money (see Exhibit 1). A scan of the market identifies more than 15 different categories of tools that, used optimally and together, could conservatively create \$2,000-\$3,500 of economic benefit per year for the average household (see Exhibit 2). This is a meaningful difference for a population with a median of about \$45,000 in annual post-tax household income.⁸

6 "The US Financial Health Pulse; 2018 Benchmarking Survey," Center for Financial Services Innovation, (Forthcoming 2018).

7 Eric Wilson and Eva Wolkowitz, "2017 Financially Underserved Market Size Study." Center for Financial Services Innovation (December 2017).

8 Based on median income of approximately \$60,000 from Kayla Fontenot, Jessica Semega, and Melissa Kolar, "Income and Poverty in the United States: 2017" (September 2018). US Census Bureau, less federal and New York state tax.

Exhibit 1: Financial health solutions by consumer financial need

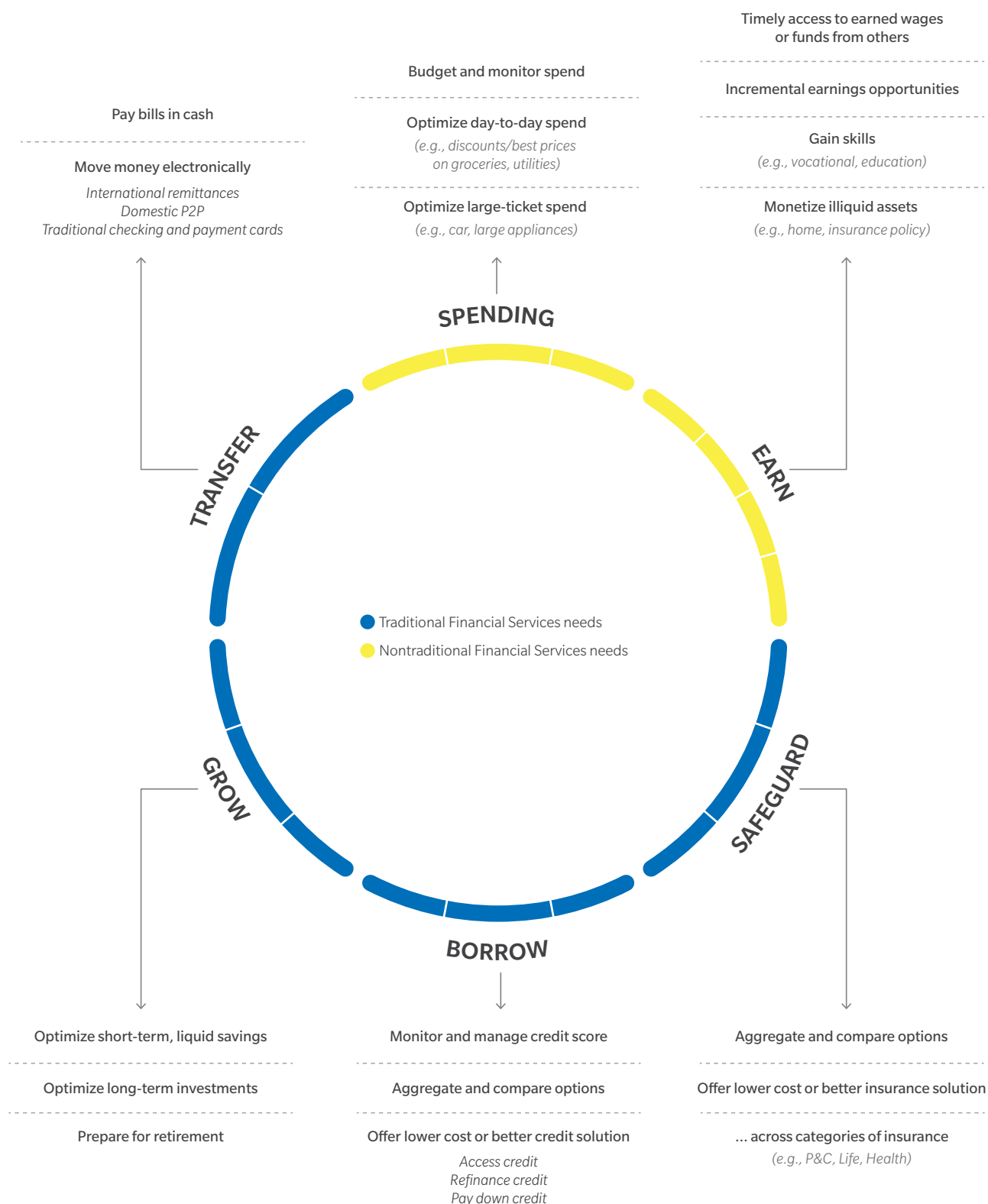
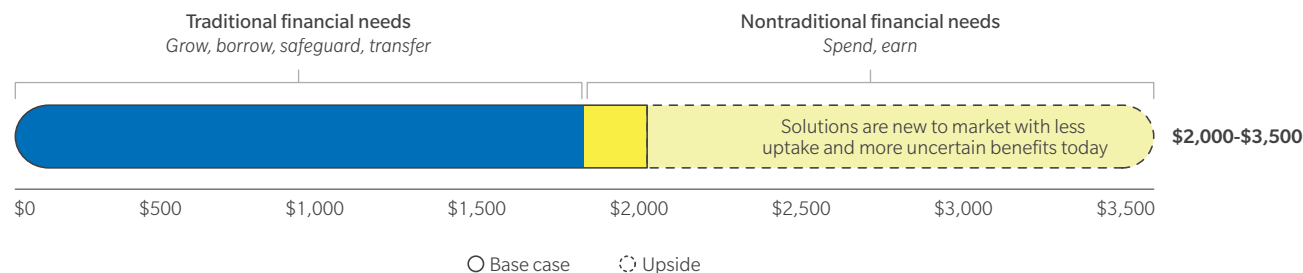


Exhibit 2: Potential impact of financial health solutions for consumers*

Estimated household financial improvement

Annual impact



* See appendix C for description of methodology. Estimate is conservative because it classifies some more speculative benefits as upside in range, does not include all potential benefits, and uses annual figures rather than NPV.

TRUST IS CRITICAL TO UNLOCKING THE FINANCIAL HEALTH MARKET, AND REVENUE MODELS ARE CRITICAL TO TRUST

Despite the promise, the market for financial health solutions can be deceptively difficult to crack. New ventures face myriad challenges – from brand awareness to product/market fit to regulatory complexity – but perhaps most vital is the task of establishing trust with mass market consumers. The financial services industry continues to rank as the least trusted of all 15 industries reviewed in the Edelman State of Business report.⁹ This opens the door to new competitors, but has also conditioned mass market consumers to be wary of bad actors and predatory business models, as well as skeptical of new value propositions.

Revenue models are foundational to establishing and retaining this trust. According to the 2018 Edelman Trust Barometer, nothing erodes trust in financial service companies more than lack of product and cost transparency. Next after that is unwanted selling.¹⁰ Monetization profoundly affects consumers' perceptions of whether financial providers are looking out for their

best interests; hidden fees and excessive rates leave consumers feeling taken advantage of, while being bombarded with low-quality referrals sows doubt about whether providers are “on your side.”

In addition, the financial services industry itself has at least four distinct challenges that make it particularly difficult to drive monetization (see Exhibit 3).

All of this makes developing a successful revenue model one of the most difficult and important tasks that a new entrepreneur in the financial health space faces. Promisingly, an emerging cohort of entrepreneurs is beginning to embrace revenue models that reinforce, rather than threaten, consumer trust and positive financial health outcomes. In doing so, they harness the potential to improve acquisition, deepen user engagement, and reduce attrition – further enhancing the monetization impact and engendering a clear competitive advantage in the financial services marketplace.

Doing so is not easy, though. Constructing these revenue models takes substantial rigor and time. Sustainable revenue models do not emerge fully formed from good value propositions or large user

bases. Rather, successful startups invest in building a sustainable revenue model just as they do in their consumer-facing proposition. These companies develop their revenue model at early stages of their venture, even if the realities of their business mean material revenue is not generated until later in their maturity.

WHILE THE FIELD IS STILL EARLY, THERE IS A GROWING BODY OF LESSONS LEARNED ABOUT HOW TO SUCCESSFULLY CONSTRUCT FINANCIAL HEALTH-ALIGNED REVENUE MODELS

Companies are still early in experimenting with financial health-aligned revenue models, and there are no runaway IPO success stories that have established a winning blueprint. To help entrepreneurs evaluate their options and implement their preferred approach, this report surveys the current state of play and emerging “keys to success.” We focus specifically on non-credit led models, in order to highlight frontier and less conventional monetization strategies.

To examine this issue, Omidyar Network and Oliver Wyman undertook an in-depth research effort that included an outside-in review of 350 leading FinTechs; interviews

9 “2018 Edelman Trust Barometer Global Report,” Edelman, (2018).

10 “2018 Edelman Trust Barometer: Financial Services Edition,” Edelman, (2018).

and ideation sessions with more than 50 FinTech executives, investors, and other leading industry experts; and focus groups and digital diaries with dozens of consumers across income ranges and geographies.

What surfaced are three clusters of insights:

- Learnings from the overall market landscape about which payer models FinTechs are using across the life cycle (see Section 2);
- A close look at how mass market-oriented, financial health founders are developing strategies that build trust-based revenue models (see Section 3), and;

- Advice from founders and investors about how to effectively embed a financial health-orientation into revenue model design on an ongoing basis (see Section 4).

The right level of planning, forethought, and investment can overcome the challenges associated with developing sustainable, responsible monetization strategies. This report seeks to inspire financial health entrepreneurs to pursue innovative monetization strategies that serve consumer needs. Above all, we hope to support the development of venture-scale businesses that generate broad advancements to consumer financial health.



WHY NON-CREDIT LED REVENUE MODELS?

While credit is a major consumer need and the focus of many FinTechs, the revenue model for credit-led solutions is well-established. We focus on other ways entrepreneurs can help consumers – where the revenue model is less straightforward and the solution is less prone to the misaligned commercial incentives that sometimes exist for credit solutions.

Exhibit 3: Four challenges associated with monetizing FinTech solutions

With a digital-first approach, many FinTech products can resemble consumer tech products. Successful monetization within financial services, however, can often be more challenging, for several reasons:

LOWER LEVELS OF USER ENGAGEMENT



Financial services products often require less frequent engagement and/or less screen time. For example, checking a personal financial management tool or transferring money rarely generates the same length and frequency of use that popular apps such as Instagram or Twitter generate.

DELAYED GRATIFICATION



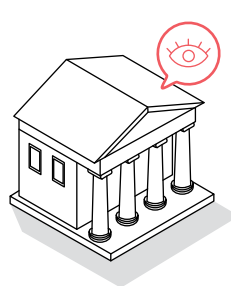
Many FinTechs focus on solving longer-term problems for consumers, such as saving money or budgeting better, making it tougher for consumers to quickly recognize the value the solution is creating.

DATA SECURITY CONCERNS



Consumers entrust FinTechs with highly sensitive financial information such as financial transactions and total assets, which increases the barrier to acquire customers and the negative impact of cybersecurity breaches.

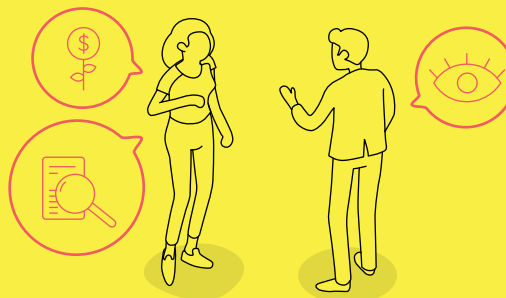
GREATER REGULATORY SCRUTINY



As a heavily regulated industry, financial services can be a difficult and costly space to navigate. Many FinTechs end up either partnering with existing financial institutions and sharing the revenue or beginning the process of becoming banks themselves, which introduces significant risk, compliance, and operational costs. Regulation also can limit the types of monetization strategies FinTechs can pursue and make it riskier to rapidly test ideas and change direction.

WHY REVENUE CREATION IS CRITICAL FOR FINANCIAL HEALTH STARTUPS

In addition to the competitive advantages accrued from trust-based revenue models – and even considering the possibility of exit strategies to acquirers with revenue models of their own – experts and investors we interviewed for this report highlighted six additional reasons that revenue creation is critical for financial health startups.



PROOF OF VALUE CREATION

Revenue generation – even if small – helps establish proof a solution is truly valuable. User numbers can tell a misleading tale, but revenue is hard to fake and serves as evidence of value to consumers, potential third-party partners, and investors.

INVESTMENT AND CASH FLOW CLARITY

Thinking through and testing the revenue model early on helps clarify the level and types of investments to successfully grow and scale their business. For example, FinTechs might need to add new product features that are easier to charge for, build a separate sales force focused on third parties, or invest in marketing their value to consumers.

INVESTOR ALIGNMENT

Even if revenue cannot be realized in the near-term, a clear plan for sustainable revenue generation can give investors confidence in the startup's long-term potential.

PRODUCT DESIGN INSIGHT

Some of the most successful entrepreneurs interviewed for this report highlighted how understanding their revenue model first allowed them to make the right decisions about which consumer segment they would target, and what features they could afford to provide.

COMMITMENT TO GUIDING PRINCIPLES

Knowing where their revenue will come from, and how they will cover their costs, helps entrepreneurs avoid later risking consumer trust in pursuit of short-term economics.

POSITIONING FOR ACQUISITION

Even founders seeking to exit through acquisition should develop their revenue models. Acquirers and investors alike often wish to see evidence of revenue generation for all the reasons above.



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Downtown
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SECTION 2

FINTECH REVENUE MODEL LANDSCAPE

Entrepreneurs' first decision when monetizing a new service is a deceptively simple one: Who should pay? To provide an overview of the options, we developed a revenue model framework of FinTech monetization approaches, and then mapped 350+ consumer-facing FinTech firms.¹¹

We cast a broad net to discover which models are being deployed most

heavily among FinTechs overall, how revenue models evolve over time, and which models are gaining traction with investors and users.







While there are many options for entrepreneurs to explore, there are three basic categories of payers that financial health revenue models can rely on (see Exhibit 4):

1. Consumers themselves;

2. Third-party sellers, who pay for advertising and referrals, and/or;

3. Third-party beneficiaries, who themselves accrue value in some way when a consumer uses the financial health tool, which can be direct monetary value (e.g., interchange) or more indirect value (e.g., employee wellness program that reduces employee churn and/or increases productivity).

Exhibit 4: FinTech revenue model payers*

			
WHO PAYS?	CONSUMER	THIRD-PARTY "SELLER"	THIRD-PARTY "BENEFICIARY"
	▼	▼	▼
WHY DO THEY PAY?	They receive value from the solution themselves	The FinTech users are valuable potential consumers for the third party	The FinTech consumers' use of the solution itself creates value for the third party
	▼	▼	▼
SUB-CATEGORIES	<ul style="list-style-type: none"> • All or subset of direct users • User affiliates (e.g., parents paying on behalf of children) • Specific demographic groups within each (e.g., by age) 	<ul style="list-style-type: none"> • Financial services firms (lenders, insurers, etc.) • Non-financial firms (e.g., grocers, pharma firms) • Employers and job sites 	<ul style="list-style-type: none"> • Merchants (interchange) • Employers and governments • Companies purchasing data
EXAMPLES	NETFLIX 	 credit karma	 = Even

* Example companies may employ multiple revenue models (e.g., Acorns both charges the consumer a fee and generates revenue from third-party sellers via its "Found Money" product).

¹¹ See appendix for details regarding the data set and analysis.

In addition to who pays, entrepreneurs must also figure out how the payment should be structured. Currently, most financial health payment types fall into one of eight high-level categories as indicated in Exhibit 5.

There is substantial activity across the full range of revenue models, underscoring that there is no universal formula for success that holds across all business models. However, our analysis did yield three takeaways:












1. Consumer pay dominates. To date, consumer pay approaches are by far the most commonly used revenue model, with 65 percent¹² of FinTechs reviewed using this approach. Third-party seller models (33 percent) and third-party beneficiary models (26 percent) are also used by a notable minority of startups (see Exhibit 6).

2. From a single revenue source early on, diversifying over time. Approximately three-quarters of financial health solutions in the market today rely on a single source of material revenue. However, on average, companies with multiple material sources of revenue have raised twice as much funding from investors and are slightly older than companies that rely on just one revenue source.

Experts and entrepreneurs pointed to a simple explanation for this trend: Building a revenue model is hard work. It takes trial and error, executive focus, and incremental effort outside of product design. Most entrepreneurs narrow the aperture and choose a single payer source to focus on first.

As FinTechs grow and mature, however, they have the resources to both add new features and develop more complex solutions that would attract different sources of revenue. They have more time to pursue each stream of revenue.

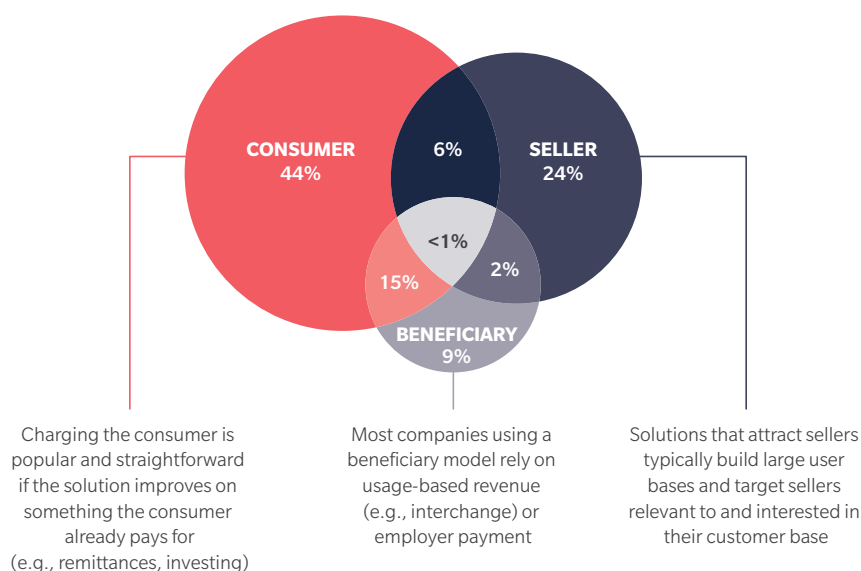
Exhibit 5: FinTech revenue model framework*

WHO PAYS?	WHAT IS THE PAYMENT BASED ON?	EXAMPLE IMPLEMENTATION	EXAMPLES**
CONSUMER 	Solution use (e.g., fixed fee, variable fee)	Monthly subscription fee, "pay what is fair" fee	
	Internal cross-sell	Free trial "freemium" to cross-sell another paid product	
	Value created (e.g., gain share)	Fees as percentage of savings for users	
THIRD-PARTY SELLER 	External cross-sell	Compensated referral from one company to a third-party's product	
	Advertisement	Pay per impression fee for advertisements	
THIRD-PARTY BENEFICIARY 	Usage-based	Interchange fees based on how much customer spends on a payment card	
	Consumer affiliation	Subsidization of a financial services benefit by employer or government	
	Anonymized consumer data and insights	Payment by merchants or other third parties for access to customer insight	

* Example companies may employ multiple revenue models (e.g., Mint also charges a monthly subscription fee ["solution use"] to consumers who opt in to their Mint Credit Monitor product).

** Example companies employ at least the revenue model for which they serve as an example, but many have additional revenue models.

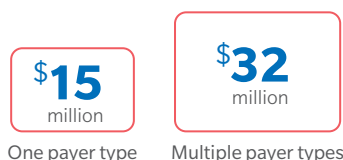
Exhibit 6: Concentration of FinTech companies by payer



12. Note: firms may use more than one model.

Entrepreneurs must determine the right first stream of revenue early on, and continue to focus on revenue model evolution as their business matures. Diversification is part of building a more robust business that is also attractive to investors.

Median funding raised



3. FinTechs with the most funding: delivering traditional services more cheaply with consumer pay models.

The cohort of FinTechs that has raised the most funding from investors thus far¹³ has generally followed a straightforward model:

Build digitally powered, more cost-efficient versions of traditional financial services, unencumbered by legacy profit margins and architecture. In so doing, they create cheaper, often better customer experiences (see Exhibit 7).

For the most part, these solutions use consumer pay revenue models, charging fees that are simply lower than what consumers pay today. In a few cases, this is augmented by third-party referrals, cross-sell to other products, data purchase fees, or interchange.

Many of these startups focus on mass affluent consumers. Some, like Credit Karma, have taken a service that consumers used to have to pay for and made it free by finding third-party referral partners to pay for the solution.

“ You need to understand the value you create and target the right customer to pay for it. The revenue model should be built upon how and for whom you create value. ”

David Ehrich, Petal¹⁴

Exhibit 7: US B2C FinTechs with the most funding (of companies evaluated, which excludes lenders)*

1	credit karma	Credit score monitoring and tax prep (with external referrals)	8	worldremit	Money transfer
2	robinhood	Investments	9	coinbase	Investments and money transfer
3	7TransferWise	Money transfer	10	metromile	Auto insurance
4	Rolut	Banking and money transfer	11	wealthfront	Wealth management
5	Betterment	Wealth management	12	Remitly	Money transfer
6	PaVoneer	Money transfer	13	CIRCLE	Investments and money transfer
7	PERSONAL CAPITAL	Wealth management (cross-sell from PFM)	14	motif	Wealth management

● Primarily consumer payer
 ● Primarily third-party payer

* Reflects only companies included among the ~350 companies our research spanned. Solutions categorized based on public information only. Does not include B2B businesses that exist alongside consumer-facing businesses. Based on Crunchbase funding data. While crypto-focused trading platforms provide new capabilities from legacy options, they still address a transfer or investment-related need (just with a different “currency” or “asset class”).

Source: Rank ordered by total funding raised based on Crunchbase data.

¹³ While funding is not a perfect proxy for revenue model success, it indicates firms that have differentiated themselves with investors.

¹⁴ Oliver Wyman/Omidyar Network workshop with FinTech entrepreneurs (2018).

For FinTech entrepreneurs exploring payer options, a breadth of opportunities is available. It is important not only to choose the best fit for the business, but also to anticipate which revenue streams could become viable over time.

Of course, different businesses will be suited to different payers and payment

structures, depending on a variety of factors, including:

- What value is created
- For whom
- Who perceives the value
- The type of user engagement the solution generates

The checklists in Exhibit 8, indicating necessary conditions that make a particular payer option viable, may be helpful in steering toward a particular payer.

Exhibit 8: Conditions to determine whether a payer is viable

CONSUMER



- ✓ **You create sufficient value for consumers who are willing to pay**
The solution creates enough value in excess of fees (often, in the near-term) to generate a clear, net monetary benefit for the consumer
- ✓ **Consumers can perceive the value created and attribute it to the solution**
The value created can be quantified and communicated to consumers – often a challenge if the solution is unfamiliar to the user or value accrues over the long term
- ✓ **The solution is better or cheaper enough to overcome consumers' inertia**
Users perceive that your solution is better or cheaper than the competitors' – and sufficiently so that it is worth changing providers

SELLER



- ✓ **Consumers create sufficient value for third parties that they are willing to pay**
Advertisers and referral partners see your user base as well-matched to their products, and with enough wallet to justify the cost
- ✓ **Ads and referrals will be viewed by enough consumers**
You have a large and engaged enough user base to justify the advertising or referral spend
- ✓ **Consumers can be "activated" to follow through on offers and be good users**
Your users are likely to do more than just view click-based ads or offers; they are likely to follow through – relevance of offers and trust in the source are critical

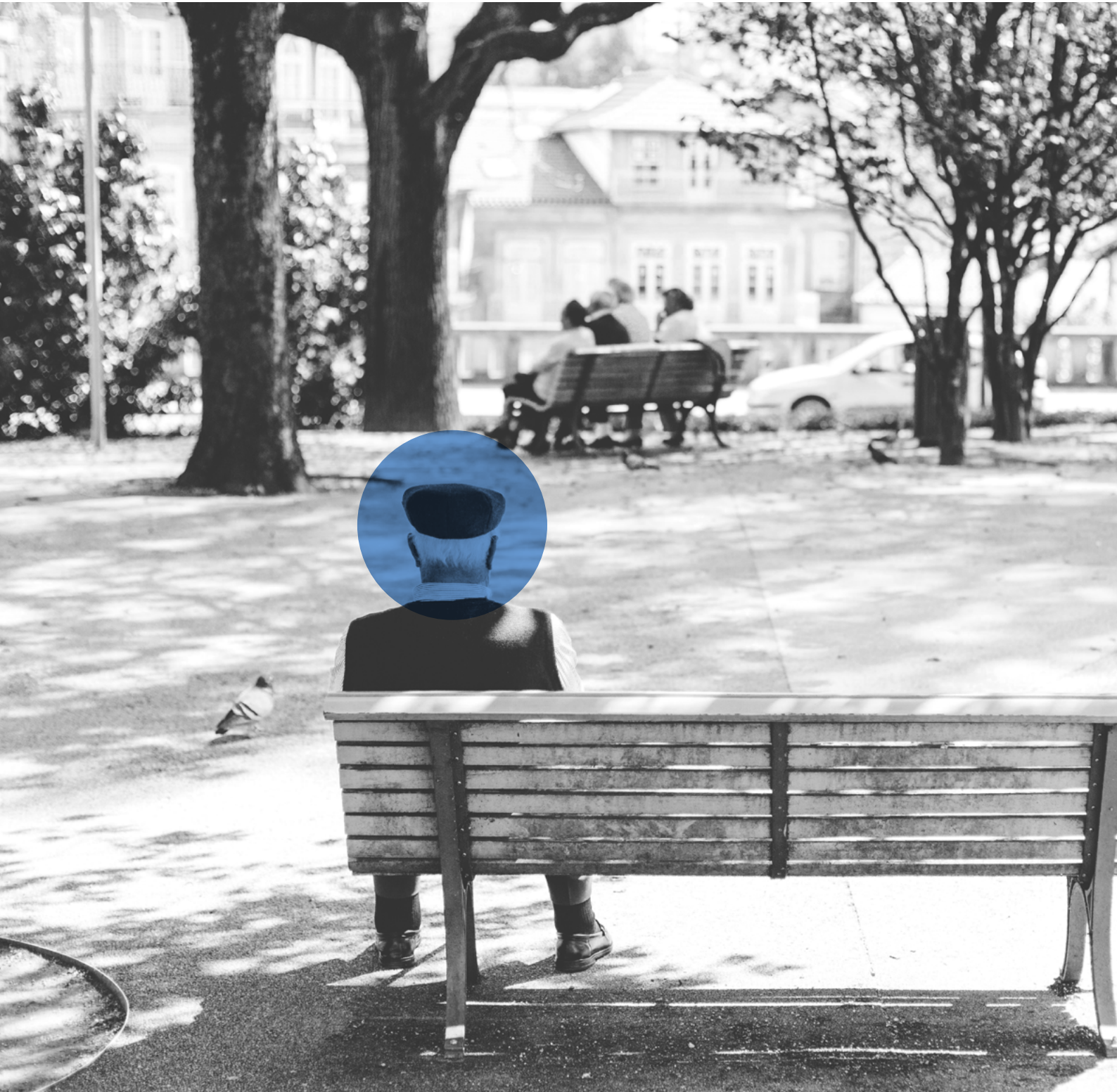
BENEFICIARY



- ✓ **Third parties derive sufficient value from consumers using your solution to pay**
You can demonstrate to third parties that they benefit from consumers using the solution
 - ✓ **These third parties perceive the value created and attribute it to the solution**
You can show causal links between consumer use of the solution and value received by third parties
 - ✓ **User engagement with the solution is sufficiently high to generate material revenue**
Your user engagement is high enough to create consistent value for third parties (whether through interchange, data sales, or outcomes of interest to institutions)
-

SECTION 3

MASS MARKET FINANCIAL HEALTH: EMERGING REVENUE STRATEGIES



After examining the FinTech landscape overall, we looked specifically at revenue strategies for mass market solutions. Our goal was to explore how mass market revenue models compared with the broader marketplace and to show distinctive strategies employed by businesses targeting this large, diverse, and underserved consumer segment.

We explored a wide range of questions, including which payer models were used disproportionately, and how companies adapted when the popular “offer it cheaper” consumer pay model was not viable. This was an issue when new value

propositions were needed and/or opaque fees made it difficult for consumers to perceive that a solution was, in fact, less costly.

To address these issues, we conducted an in-depth quantitative analysis of 80+ mass market companies,¹⁵ and talked to market leaders about the business strategies that allowed mass market firms – particularly those at the frontier of new and creative approaches – to do things differently.

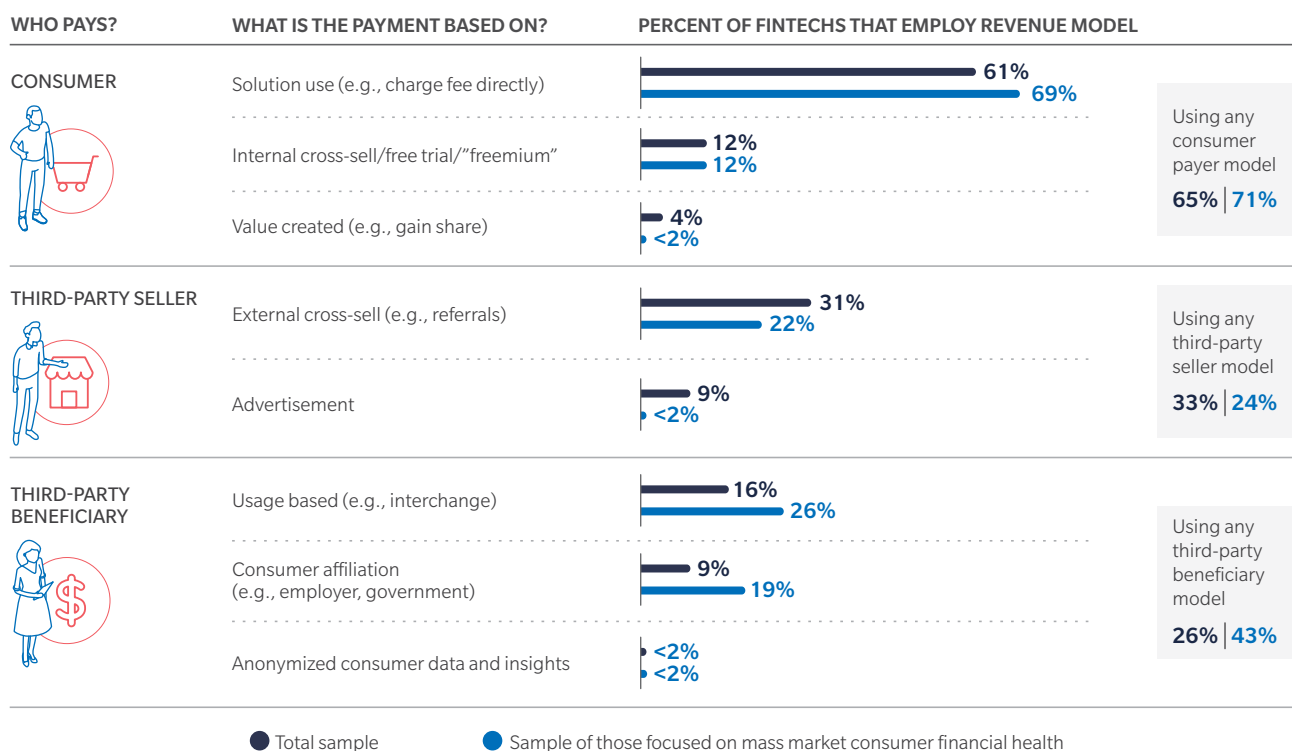
Our quantitative analysis revealed three key findings about firms focused on mass market consumers:

1. Not shying away from charging consumers directly. While 65 percent of total FinTechs assessed charged consumers direct fees for their offerings, 71 percent of mass market firms did so (see Exhibit 9). Entrepreneurs appear to recognize that mass market consumers pay vast amounts of fees today and feel confident enough to make the case directly that their services create enough value to be worth paying for. Frontier firms in this space ensure their solutions create sufficient value for consumers and that the value can be communicated well.

Exhibit 9: Distribution of B2C FinTech companies across revenue model options*

Percentage of US B2C FinTechs studied that employ each model

Total exceeds 100 percent, as some FinTech companies employ multiple revenue models



* Excludes pure FinTech lenders, given focus on non-credit solutions.

¹⁵ We analyzed companies’ offerings and marketing (via their websites or applications) to define a subset of companies that focus on mass market consumer financial health. Companies classified as focusing on mass market consumer financial health: (1) were accessible to mass market consumers and addressed a financial need (e.g., companies with high minimum account balances or that served only accredited investors would be excluded); (2) had marketing that indicated accessibility to and interest in improving the financial lives of mass market consumers.

2. Relying more on referrals than display advertising, and addressing nontraditional needs.

Where mass market FinTechs work with third-party sellers, it is almost exclusively via referral arrangements, rather than advertising. It is not entirely clear what variety of factors contributes to this less frequent use of advertising. However, entrepreneurs noted the complexity of finding third-party arrangements that are both financially productive for the seller and supportive of the financial health of the consumer.

To counter this, frontier firms are exploring a range of referral product categories that go beyond traditional financial services (e.g., income discovery and spend optimization). They are then curating the solutions to provide referrals with both greater benefit to consumers and, hopefully, higher rates of conversion given the heightened relevance.

3. Turning more to third-party beneficiaries.

Whereas 26 percent of total FinTechs in the market rely on third-party beneficiaries, nearly 43 percent of mass market solutions use this revenue stream – a significant difference that can be explained by at least two factors. First, personal finance, savings, and budgeting tools disproportionately serve mass market consumers. These tools are often integrated into traditional financial services offerings (e.g., payments and deposits) that generate interchange and net interest income. Second, mass market companies have identified other third parties (e.g., employers and government agencies) that have a vested financial interest in the financial health of these consumers – and might be willing to pay to improve it.

In support of these revenue model selection differences, it was also evident from our qualitative interviews that frontier mass market firms are employing a distinct set of consumer engagement strategies both to maximize their chances for financial success and to maintain the consumer trust they know to be key to their futures. Paradigmatic shifts are emerging across each of the three payer categories.

CONSUMER PAYS: FROM FEE TRANSPARENCY TO VALUE CLARITY

An early focus of firms working to align financial services revenue models with consumer trust has been an emphasis on fee and product transparency. As noted in the introduction, negative surprises with regard to cost are a major factor eroding consumer trust, and correcting this is a major step forward. Achieving this, however, makes the next step – creating value clarity – even more important.

Faced with clear costs, consumers must be made equally aware of the value that solutions create. If they aren't, consumers may choose other products with less transparent cost structures (e.g., accounts with no monthly fee but high incident fees that are likely to be incurred) or simply do without the product.

Financial health entrepreneurs that seek to charge the consumer must be able to effectively communicate the value they create in the right ways and at the right time. Our research pointed to five keys to success frontier firms are employing to achieve this (note: For the example given, the indication that a firm has done a particular thing well is not a broad endorsement of its business or revenue model beyond the specific example):

1. Understand how you create value and for whom – and maximize it.

Understand the specific features that consumers perceive to add the most value, and message those consistently. In addition, recognize that users may receive different value from a solution, based on factors specific to their usage (such as account size or how often they engage). Use data to understand micro-segments of consumers currently receiving different levels of value. Then market aggressively to those getting the most value today, while also working to expand the impact of the tool for other segments in the future.

EXAMPLE

STASH

Stash is a digital financial services platform focused on millennial and middle-class Americans who are new to investing. It set out to build a tool around simplicity and ease of use and knew that was a key source of value created for users.

The company targets those who know they should save and invest but lack the confidence to use more traditional services. Stash's accessible platform has learning tools, and the company has expanded into providing other financial services to this segment, presented in a simple and easy to understand manner.

2. Communicate the value convincingly.

Focus groups made clear how often consumers fail to see the value solutions create for them. Consumers are also conditioned to disbelieve product claims that sound too good to be true. To address this, companies need to translate changed behaviors into added value.

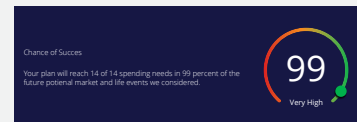
Articulate late fees avoided, lower prices paid, or time saved. Use free trial periods to overcome skepticism, and rely on clear explanations over exaggerated claims.

EXAMPLE



United Income provides money management technology solutions to help members achieve their retirement goals. The company's investment management solution quantifies and communicates the value created for members. In tracking performance, United Income determines wealth created and projected wealth created from using the solution, and splits out highly market-dependent investment returns from value created around fees, taxes, and government benefits (e.g., when to start receiving social security benefits). In addition, the company links this performance with users' goals to project their chances of success.

Total Wealth Created by United Income		Investment Returns since joining UI*	
\$351,697		12.03%	
Fees Saved	\$109,740	Stocks	15.76%
Taxes Saved	\$2,378	Bonds	2.05%
Investment Returns	\$226,931	Other	1.00%
Government benefits	\$12,648		



3. Align the timing of consumer costs with the value they receive. For financially struggling consumers, trading short-term cost for long-term value is difficult, and the uncertainty involved makes it hard to build trust.

For products that create clear, consistent, and upfront value for consumers, consider subscription and usage fees. Use other fee structures, such as gain-share, pay-what-is-fair and free trials, when the value is less consistent or less immediately clear.

EXAMPLE



Truebill helps consumers track their bills, cancel unwanted subscriptions, and request refunds.

The company charges for some features but uses a "gain-share" model. Truebill can therefore tell users that it gets paid only if it successfully negotiates savings on their behalf.



Our fee is 40% of your savings. If you save \$100, we take \$40. If we can't negotiate any savings, you pay nothing.

4. Communicate the effort you make and credit you deserve. The most effective user interfaces drive engagement by making tools simple and seamless. Unfortunately, this can hide the complexity of the tool. In focus groups, consumers questioned paying for something they could have done on their own – even when they admitted they never actually would have.

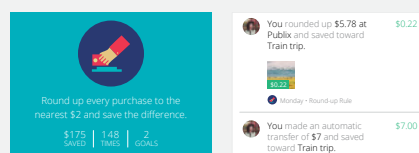
Behavioral economics teaches that it is important to articulate both how hard companies are working for consumers and their unique ability to help. Emphasize the many steps taken, special assets used, the time saved, and the complexity eliminated.

EXAMPLE



Qapital helps users with goal-based saving, spending, and investing. To help customers perceive their effort, Qapital shows both outcomes (e.g., amount saved) and work done (e.g., 148 transfers based on rounding up purchases to the nearest \$2) via an activity feed.

The importance of showing effort is well established. Behavioral researcher Maura Farver notes that "Some travel sites even display a 'calculating' page to show the consumers that they are working hard to find the best deals. Customers appreciate the effort that goes into providing the solution."^{*}



* Oliver Wyman/Omidyar Network interview with Maura Farver (2018).

5. Learn and adapt over time. In focus groups, individual consumers – even within the same segment – exhibited striking differences in the value they perceived from the same solution.

Use data and testing to continuously seek feedback and iterate on fees, offers, and messages to consumer micro-segments.

EXAMPLE

Aspiration

Aspiration provides socially conscious banking and investing services. The company charges a “pay what is fair” fee (in which Aspiration suggests a fee but allows customers to pick their own price) to reset consumer trust in their financial services provider.

Aspiration has implemented this model successfully by testing the model, adapting the user experience around “pay what is fair,” and tracking contribution rates by cohort to identify causes of variation. This has been particularly important customer research, since “pay what is fair” models are relatively new.

Aspiration also conducts surveys to gather product feedback and adapt to consumer preferences.

I have invested **\$50,000**
and I've set my fee at **\$450**
so Aspiration will make a **\$45**
donation to charity

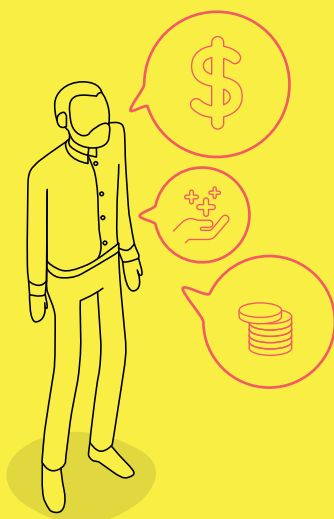
0.95

Update

“Delivering a great solution is the best way to convince the customer to pay. But we still track behavior change if we use a slider or revise the range of fees offered.”

– Katie Emmett, Aspiration

INSIGHTS FROM CONSUMER RESEARCH



In focus groups, we tested how consumers perceived value and evaluated specific revenue models, and uncovered broad insights into consumers’ financial attitudes and behaviors.*

FINANCIAL GOALS

While consumers’ goals varied widely, most wanted to spend less, repair damaged credit, buy a home, switch careers, or pursue other fundamental aspirations.

The lowest-income consumers discussed financial health principally in terms of problems to avoid. Participants spoke about “not struggling or worrying about covering costs,” “not being in debt,” “not worrying about surviving,” and “not having highs and lows.” Mirroring this, they valued solutions for immediate, short-term challenges, like coupons on everyday goods or help finding supplemental work.

By contrast, even moderate-income consumers spoke about financial health more in terms of future opportunity (“having disposable income,” “having insurance,” “being up to date on mortgage payments”). As they evaluated potential solutions, they considered trade-offs with longer-term paybacks. These participants wanted solutions that provided financial advice or investing tools.

PERCEPTION OF VALUE

Consumers expressed skepticism about the value that many FinTech solutions could create for them. When examining prototypes, consumers were quick to point to solutions they used already or to question how an app achieved the benefits it claimed. In general, value was most readily perceived when products were:

- Significantly more cost effective than what was available in the marketplace. (“If it comes out cheaper, I’ll try it.”)
- Very convenient and easy to use; consumers valued this regardless of income. (“Digit makes saving easier, so I pay for it. I’d spend [that amount] in the blink of an eye.”)
- Low-risk to try out. Many consumers said they were willing to try a solution but expressed concerns about data privacy. (“My bank account data is personal; you might use it for things I don’t approve of.”)

REVENUE MODELS AND PRICING

Consumers had very different perspectives regarding different FinTech revenue models, even among those with similar demographic profiles. For example, reactions to a prototype with a “pay-what-is-fair” monthly fee structure spanned “Beautiful,” “That’s very appealing,” “I like options,” “I wouldn’t pay,” “This is confusing,” and “If you want me to pay, just tell me how much to pay.”

However, a few patterns emerged from the focus groups:

1. Low-income consumers were particularly skeptical of new types of solutions and unfamiliar fee structures – perhaps wary of being taken advantage of by providers. Some consumers even expressed a preference for familiar fee structures they thought would be more expensive than unfamiliar models, such as gain-share.

Moderate-income consumers tended to be more open minded about new payment structures.

2. Many consumers expressed their willingness to pay for solutions in comparison to other services. Often these were existing financial services, but reference points also took other forms. For example, one consumer commented, “All of my apps are free or cost 99 cents, so I’ll pay 99 cents for this app.”

3. Reactions to revenue models and fee structures were mixed, but some lessons were perceptible. For example:

- **Gain-share** models need to be communicated well to avoid the perception that the fee structure is unfair. (“You’re skimming off the top of my money.”)
- **Pay-what-is-fair** fee structures resonated with many consumers, particularly when paired with a transparent explanation of how these fees were essential to support a valuable service and what consumers would pay in the broader market.

* Omidyar Network and Oliver Wyman conducted four in-person focus groups (including prototype testing) and a nationwide virtual panel to investigate consumer attitudes and behaviors related to financial health.

THIRD-PARTY SELLERS: MOVING FROM ADVERTISING TO ADVISING

Third-party seller models – mainly ads and referrals¹⁶ – are common in consumer tech as well as FinTech, because they allow users to access products more cheaply or for free. Providing high-quality ads and referrals is critical to retaining consumers’ trust in the long-term and having the permission to continue to refer them to

other providers. Firms built on consumer trust strategies are appropriately sensitive to these concerns. Some frontier firms see this as an opportunity to move from an “advertising” to an “advising” approach. They see their referrals not only as part of the revenue model but also part of the business model.

They believe they are providing value by making trusted recommendations, surfacing solutions that will benefit

consumers’ financial health. There is no trade-off between doing what is right for consumers and what is right for shareholders. If executed well, this approach can generate higher revenue as well.

When adopting a third-party seller model, look to the four keys to success for frontier firms moving from advertising to advising:

¹⁶ There are many variations on each of these models. Among referral models alone, we observe a wide range of approaches to offer curation, customer targeting, and integration into the referring FinTech’s UX and experience.

1. Identify key problems for your users.

Any ad- or referral-supported platform has to balance revenue with users' limited patience and attention. Attempt to identify your users' most pressing needs, and only surface needs in those areas. One firm we interviewed provides a single offer at a time.

To understand and micro-target users' additional financial health needs, consider polls and focus groups, analyzing users' data and augmenting those data with external research.

2. Think creatively and expansively in considering referral streams. Primarily, FinTech firms have referred consumers to a narrower range of products, mostly in traditional financial services and mostly related to credit. However, there are other products and services with the potential to improve financial health.

Explore opportunities to meet financial health needs with referrals beyond traditional financial services products, such as services to help consumers optimize how they spend or earn money.

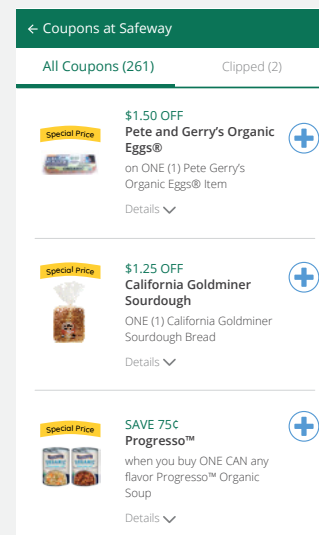
EXAMPLE

PROPEL

Propel builds software to make the social safety net friendlier to low-income Americans, including Fresh EBT, which helps SNAP recipients check their food stamp balances.

Propel's distinct approach to referral and advertising revenue draws on an array of non-financial services payers like grocery stores (via in-app coupons), cell phone providers, and employers (job ads). Expanding the pool of referral partners creatively has become an emerging tactic of financial health companies to increase revenue and benefit their users with pro-consumer offers and solutions.

In the case of Fresh EBT, this wider set of referral partners also has allowed the app to better address the financial needs of users – including by helping them to save more on the products they buy already and earn more via new job opportunities



3. Curate the best solution partners.

An institution that has earned the consumer's trust can provide great value in its curation and endorsement of only the highest quality, most personally appropriate offers.

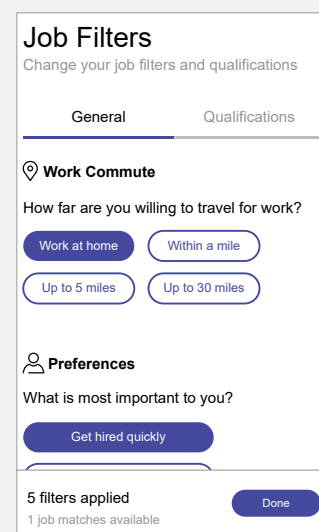
When pursuing ads and referrals, identify the right firms to partner with based on customer reviews, your own diligence of the organization, and insights from other startups that have partnered with them before.

EXAMPLE



Steady is a mission-driven business that helps users earn more. Through the free Steady app and web platform, users can build and track income, networks, and buying power – allowing them to augment retirement savings, work around childcare responsibilities, pay down debt, save for a purchase, and supplement overall insufficient income from primary employers.

Steady brings together various parties who benefit users: employers, gig economy platforms, inclusive/sustainable financial services and insurance, merchants offering relevant discounts, and more. High-quality and carefully selected curation on the platform addresses users' financial needs expansively while helping Steady retain user trust.



4. Delight before and during the referral. Consumers should have a positive experience with the solution itself and with third-party sellers. Delighting the consumer before making a referral means building trust and earning the “right to sell.” It begins with providing solutions that create material value for the consumer.

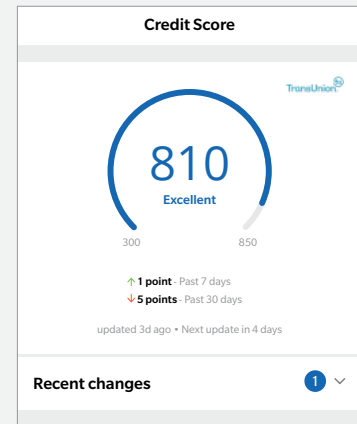
Don’t skimp on delivering a high-quality user experience. To make the referral experience faster, more pleasant, and easier to complete, aim for seamless integration using APIs and other “plug and play” technology.

EXAMPLE



NerdWallet provides an array of personal finance solutions and information (e.g., credit tracking, a personal financial management tool, educational content) and monetizes via referrals to financial products. High-quality content and services like credit tracking build trust and engagement.

This creates a virtuous cycle between delighting users and monetizing. NerdWallet CEO Tim Chen notes, “We test our articles and tools extensively, and Google rewards the resulting high engagement. This allows us to win more users through search.”



THIRD-PARTY BENEFICIARIES: FROM “GOOD FOR THEM” TO “GOOD FOR EVERYONE”

The most common and successful third-party beneficiary model for financial services companies has been interchange. Interchange currently generates ~\$80 billion of fees for financial services companies in the US.¹⁷

While merchants and financial service providers may negotiate over the appropriate rates, it is clear that consumer debit and credit cards provide value to merchants that is worth paying for. Cards both reduce time at the point of sale and improve shoppers’ liquidity. This market for third-party revenue has already been established, and financial health entrepreneurs are wise to take advantage of it.

While the interchange market is mature today, this wasn’t always so. Decades ago, the financial services industry made the case that a faster point of sale experience and enhanced liquidity would reduce cost and improve purchase volume. As the market has evolved, the payment card industry has emphasized new value for third parties, such as information from transaction data.

The financial health industry is now considering a much broader set of potential third-party beneficiaries that could derive value from consumer financial services. Some financial health tools create value for third parties (in the form of data) independent of the value they create for consumers. But an exciting development is the intersection where improving the financial health of the consumer creates value for others.

Increasingly, studies are showing that financial health has downstream impacts on employers,¹⁸ and there is reason to believe it could have similar impacts for governments, health care providers, and others. This creates an opportunity to fully align incentives of all players around consumer financial health.

Frontier firms are taking advantage of this by putting great emphasis on expanding the conversation from how the solutions are good for them (consumers) to how they are good for everyone (including the third-party).

Exhibit 10 indicates a list of potential beneficiaries that financial health entrepreneurs can consider and several ways they can create economic value for those institutions. This framework may be helpful in discovering third-party beneficiary opportunities worth pursuing.

¹⁷ Federal Reserve, “2015 Interchange Fee Revenue, Covered Issuer Costs, and Covered Issuer and Merchant Fraud Losses Related to Debit Card Transactions” (November 30, 2016) and The Nilson Report (May 2018) for interchange payments estimate.

¹⁸ “Employee Financial Health: How Companies Can Invest in Workplace Wellness,” Center for Financial Services Innovation, (May 2017).

Exhibit 10: Ways to create value for beneficiaries and potential beneficiaries

WAYS TO CREATE VALUE

1. ACQUISITION

Tool increases acquisition rates for the beneficiary with prospective consumers

2. RETENTION

Tool extends the average life of the beneficiary's existing consumer relationships

3. ROBUSTNESS

Tool increases financial value of a consumer to a beneficiary (e.g., by improving employee productivity or consumer purchasing power)

4. OPERATIONAL COST

Tool allows the beneficiary to streamline operations, reducing operating expense (e.g., reducing check writing)

5. DATA*

Tool results in the beneficiary receiving legally and ethically transferable data that can be monetized through the beneficiary's own processes

POTENTIAL BENEFICIARIES



CHARITIES AND ASSOCIATIONS

Deliver impact more efficiently



EMPLOYER

Improve productivity and retention, reduce stress



FINANCIAL SERVICES

Enhance service offering for customers



GOVERNMENTS

Reduce expense and improve efficiency of programs



HOSPITALS AND INSURERS

Increase payment rates, improve health outcomes



MERCHANT

Streamline POS transactions, improve shoppers' liquidity



UNIVERSITIES AND SCHOOLS

Maximize returns on education, reduce costs

* The responsible use of consumer data is a contested and complex topic, so review of its usage as a source of responsible revenue has been intentionally limited for this paper.

Source: Federal Reserve, "2015 Interchange Fee Revenue, Covered Issuer Costs, and Covered Issuer and Merchant Fraud Losses Related to Debit Card Transactions" (November 30, 2016) and The Nilson Report (May 2018) for interchange payments estimate.

THE CHANGING MARKET FOR EMPLOYER-SUBSIDIZED FINANCIAL HEALTH SOLUTIONS

Recently, companies have been expanding their employee wellness programs from physical and mental well-being to include financial health. In December 2017, for example, Walmart launched a partnership with the FinTech Even to provide its 1.4 million employees with tools for budgeting and accessing their wages ahead of payday.

Just seven months into the rollout, Even reported 200,000 Walmart users, telling American Banker that “about 75% of associates use the app every week and 46% use it every day.”

Walmart is the largest private sector employer in the US, but it certainly isn’t alone on this journey – many large companies are beginning to perceive the value of new financial health solutions. Until recently, employers may have understood such tools could improve retention, but could not justify paying for them. Now, a growing body of research is showing a linkage between employee productivity and financial stress.

According to one study, nearly one in three employees say issues with personal finances have been a distraction at work. At the median that amounts to five hours* in lost productivity, and up to 20 hours** for employees with serious credit and money problems.

In response to these challenges, several Fortune 100 companies have hired new HR executives dedicated to holistic employee well-being.

These models are still in early days, and there are challenges to navigate: long sales cycles, finding internal champions, complexity regarding who the true customer is (employer or employee), and reduced control over user engagement. But this shift in employee wellness programs has the potential to create new types of market support for financial health products and services and expand the opportunity for third-party beneficiary models.

EXAMPLE

INFLUENCING EMPLOYER VALUE PERCEPTION

DailyPay is a technology solution that helps employees control when they get paid. Before DailyPay launched, it did not have data to show employers how its tool could improve employee recruitment or retention. To articulate the value it could create for an employer (e.g., a potential third-party beneficiary), DailyPay ran an experiment in New York City with ride-share drivers. It provided its solution to drivers, and tracked driver attrition compared to a control group. The data it collected were critical to early sales conversations and helped create a metric that employers could easily understand and track.

* According to a 2017 Mercer study (“Inside Employees’ Minds: Financial Wellness, Vol 2.”), the median employee spends five hours/month worrying about money matters at work, resulting in \$250 billion in lost wages annually in the US.

** Sohrab Kohli and Rob Levy, “Employee Financial Health: How Companies Can Invest in Workplace Wellness” (May 2017). Center for Financial Services Innovation.

Our research indicates four keys to success that frontier firms are following:

1. Target the right beneficiaries.

Selecting the right beneficiaries to partner with is crucial to this model's success. The size of the institution matters, as does the technology it is currently using, which determines the ease of systems integration.

Frontier firms point out that a large number of potential beneficiaries already believe that financial health matters not only for their constituents, but their own bottom lines as well. Given this starting place, avoid wasting energy trying to change the minds of institutions that don't perceive the value of your solution.

EXAMPLE



Even helps consumers get paid on demand through select employers, budget instantly based on upcoming bills, and automate savings to meet goals. The company has partnered with large employers like Walmart to offer Even as a benefit to Walmart employees.

Even Co-founder Quinten Farmer noted that succeeding with an employer payer requires having a compelling product, identifying employers that see the value the product creates for them (e.g., recruiting and retention improvements), and targeting employers who can create sufficient scale for the integration effort required.

2. Make the financial case for business impact.

Entrepreneurs not only need to prove the impact on consumers' financial health, but also on the business results of the beneficiaries through measures like retention, acquisition, absenteeism, and productivity.

To prove the ROI for beneficiaries like employers, run consumer tests, mine the data of early adopters, and analyze metrics that show early progress (e.g., employee satisfaction rather than attrition).

3. Solve the last mile delivery challenge.

Some third-party beneficiary models depend on the beneficiary to provide the tool to consumers. This B2B2C model is how most employer financial wellness partnerships work. Even after establishing a partnership with an employer, it can be challenging to drive employee usage without the full access to users you would enjoy with a B2C model.

You'll rely on your partners to help maximize adoption, for example through links on electronic pay stubs, physical

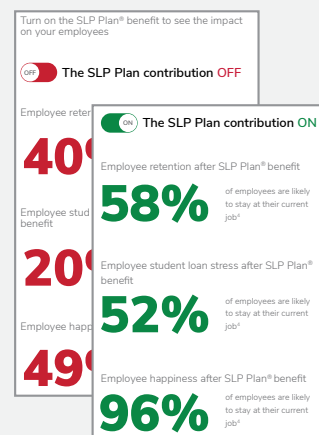
EXAMPLE



Gradifi provides a platform to help employers pay down employees' student loan debt or contribute to college savings accounts – so they can “stand out and offer a benefit that is increasingly valuable to employees and their families.”

Gradifi makes third parties aware of the value created for them via both white papers and calculators on its website that clearly articulate the impact on employee retention, student loan stress, and happiness. This can be particularly difficult when a company is first getting started.

notices in break rooms, and email or text message blasts. That's why it is important to continue proving the business case to the beneficiary, even after the deal is signed, and enable this employee outreach with materials, plug-ins, and customer service support.



Some frontier firms reported that, when solutions are valuable to both beneficiaries and constituents, beneficiaries are eager to push usage. This could be a reality check if you're struggling to get to the consumer even after signing up the beneficiaries.

4. Incentivize behavior that will drive usage, consumer value, and revenue.

With interchange, the most established third-party beneficiary model, the job doesn't end when the consumer signs up for the card; it's about driving usage. Similar principles apply for solutions that aim to create value through financial health – you need to make sure the consumer is using the tool.

Maximize usage by making your solution more valuable the more often consumers use it.

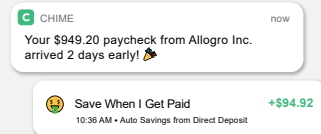
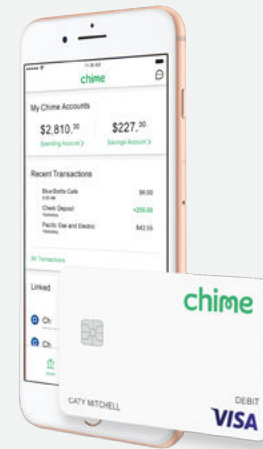
EXAMPLE

chime

Chime provides mobile banking with no fees for the consumer (except out-of-network ATM), early access to direct deposit, and automated savings. Chime benefits if users give the company more of their checking/debit wallet.

For consumers who set up direct deposit, Chime offers early access to their direct deposit, creating an incentive for users to make Chime their primary account. Chime reports that roughly 40 percent of consumers use direct deposit, with “the majority depositing their full paycheck,” according to CEO Chris Britt. Similarly, features like round-up savings and transaction alerts drive card usage that generates interchange revenue.

Chime also eases switching effort with a pre-filled direct deposit form for employers and a solution that reduces barriers to changing cards for recurring expenses.*



* Q2 Holdings, Inc., “Q2 Launches CardSwap to Keep FIs Top of Wallet, Generate Valuable Interchange Revenue” (September 11, 2017).



SECTION 4

GUIDING PRINCIPLES FOR FINANCIAL HEALTH REVENUE MODELS

“ It begins with the culture you set internally from the first day. You need to keep everyone in the organization focused on the problem you’re solving, so you align profitable business decisions with sustainable value creation for the user. ”

Adam Roseman, Steady¹⁹

¹⁹ Oliver Wyman/Omidyar Network interview with Adam Roseman (2018).

Choosing the right payer, optimizing the payment structure, and communicating the value are all essential to monetizing financial health solutions. These strategic decisions are driven by business imperatives (ensuring customer acquisition and usage alongside revenue and profit), but to maintain trust they must also be grounded in concern for the user's financial health.

Entrepreneurs striving to serve the mass market with financial health tools will inevitably face trade-offs. As the business matures, some guiding principles around financial health need to be embedded deeply enough into a startup's core strategy, culture, and processes to withstand the pressures that will arise.

Startups with a clear view of their desired impact on consumer financial health, and an understanding of how they will approach fees and partnerships, will find it easier to navigate decision points that come with growth and scale.

Exhibit 11 below gives examples of the types of questions entrepreneurs should ask themselves to develop guiding principles around financial health and revenue models.

There are no universal answers to these questions, and no universal principles that emerge from them. Those principles will depend on the realities of each business and the beliefs of its founding team. Entrepreneurs should set their own guiding principles.

As part of our research, we were fortunate to speak with dozens of FinTech founders and executives. Our conversations often addressed the core principles they defined for themselves. Exhibit 12 includes some quotes we heard that illustrate how these principles play out in financial health FinTechs today.

After reaching consensus on a set of guiding principles, entrepreneurs should look for ways to implement their principles in their operations and embed them into the company culture. They should, for example:

- Develop metrics to track the impact of the solution and the revenue model on consumers' financial health. The CFSI Financial Health Toolkit²⁰ is one way to measure and track consumer financial health.
- Return systematically to guiding principles when evaluating potential new opportunities.
- Define a plan for communicating guiding principles to key stakeholders such as consumers, investors, and third-party partners.
- Update guiding principles over time as the company scales, at all-staff gatherings, board meetings, or other regular occasions.

When embedded in the business, guiding principles help companies balance their mission for founding a financial health company with the need to make the math work. They inform every aspect of strategy and operations.

Exhibit 11: Example questions to consider in developing guiding principles



FINANCIAL HEALTH PRINCIPLES

- What impact do we aspire to have on the holistic financial health of our consumers?
- How will the revenue model impact our financial health mission?
- How can we use our revenue model to build trust and improve the financial health of our consumers?
- How will we mitigate risks that our revenue model may present to the financial health of some or all of our consumers?
- Is it ok if we improve the financial health of some of our users but not all?



CONSUMER FEE PRINCIPLES

- Which fees are acceptable and which unacceptable? (e.g., penalty fees, unexpected one-off fees)
- What are our principles for communicating fees to consumers? (e.g., what is the right level of transparency to promote trust without discouraging use or payment?)



THIRD-PARTY PARTNER PRINCIPLES

- How do we decide which referrals or advertisements to share with consumers? (e.g., are there categories of products that we won't promote? To what extent will we vet products or partners to ensure they are beneficial for consumers?)
- What are our standards for data security and privacy? (e.g., how much data will we share with partners, and how will we communicate that to consumers?)

²⁰ <https://cfsinnovation.org/score/>

Exhibit 12: Quotes from entrepreneurs on guiding principles*

FINANCIAL HEALTH PRINCIPLES



I'm looking for revenue models that are "win-win-wins" – a win for us, a win for any third-party partners involved, and a win for consumers. That last win – for consumers – is often the toughest to achieve since many revenue models out there can have a negative impact on consumer financial health.

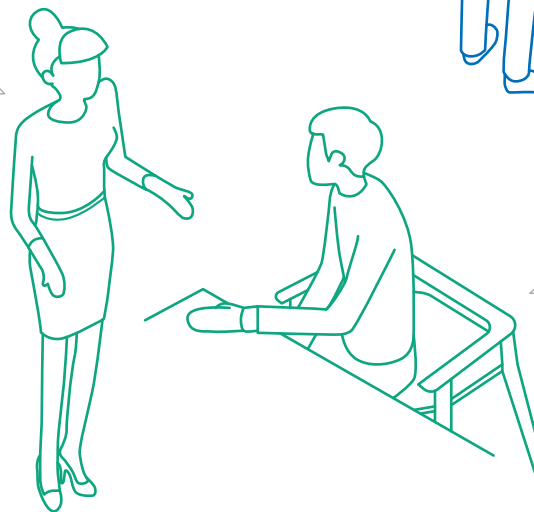
We try to measure the impact we have on consumers' financial health, and make sure that they're "net positive" after using our product (whether they are paying for it directly or engaging with an ad).

At an early stage, it's easy to say we won't charge the consumer because it helps us grow and establish trust. I do worry, however, that as we mature we'll be pressured to institute fees to maximize profit. How will we manage this pressure when many fees will be bad for our consumers' financial health?

CONSUMER FEE PRINCIPLES

One thing we discuss a lot is whether and how to notify consumers when we charge them the subscription fee. They did sign up and agree to pay. Should we notify them once or every month? By text, email, or both?

We get a lot of inbound requests from all sorts of companies that want to sell their products to our consumers. A few are companies we'd partner with, but many fall into a gray area where we're just not sure. We need a better way to evaluate and select third parties. Right now we're just leaving money on the table because we can't make these decisions quickly.



PARTNER PRINCIPLES

Trust and relevance are key to involving third-party partners. If you show irrelevant content, consumers will lose trust and engage less with your product. But what if the partners who will pay you the most are not the most relevant? We're struggling to find the right balance.

* Inspired by interviews and workshops with entrepreneurs and other FinTech leaders.

CONCLUSION

There is a growing cohort of entrepreneurs and investors building digital solutions to improve consumers' financial health. They are pioneering new value propositions, committed both to "doing well" and "doing good."

As our research discovered, their efforts to construct revenue models that are aligned with financial health are promising. They are also complex, and involve interacting dimensions of trust, value, perception, timing, and relevance. While product design and business development often get the most attention – and are often the aspects of launching a startup that excite most founders – revenue models are critical to all these dimensions.

The first questions a revenue model must address are: who pays, using which payment structure, and how that all impacts the consumer. This report laid out a framework of payer models, including consumer pays, third-party seller, and third-party beneficiary.

With financial health solutions targeting the mass market, the inherent challenge is to monetize the business in ways that support the overall mission, reinforce trust, and create value. This report has laid out several business strategies and keys to success for each payer type, based on the real experience of firms and investors working at the frontier of this field. As the field matures, these frontier practices will evolve into tried-and-tested models that benefit consumers, partners, and investors alike.

In parallel, the field itself will continue to evolve, and potentially quite quickly. The large incumbent technology platforms (such as Facebook, Apple, Microsoft, Google, and Amazon) have started moving into financial services, providing new opportunities for collaboration but also new competitors. And traditional financial services leaders are not standing still, as represented by mobile-first greenfield offerings such as Finn by JP Morgan and Greenhouse by Wells Fargo. As the incumbent landscape changes, so will the viability and opportunities for various revenue models. FinTech founders will need to adapt their approaches accordingly.

The shift from "unbundling" to "rebundling" FinTech solutions may also shape the feasibility of different revenue model approaches. As new entrants vie to become consumers' personal finance hub, FinTech founders will need to navigate some of the outstanding questions raised in this paper, including evaluating whether single revenue stream businesses can be successful at scale, calibrating the degree of product and revenue diversification necessary to retain customers long-term, and contemplating whether diversification is best achieved alone, or with partners.

Responsible monetization is no simple task, and this paper does not point to an easy, off-the-shelf answer. Rather, our goal is to inspire entrepreneurs to invest early in developing sustainable revenue models. In doing so, they will develop solutions to improving consumer financial health and have a permanent impact on the financial services industry.

APPENDIX A

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APPENDIX B

METHODOLOGY FOR FINTECH ECOSYSTEM RESEARCH

As part of efforts to review and analyze the FinTech and financial health landscape, Oliver Wyman and Omidyar Network conducted quantitative and qualitative research on approximately 350 industry players in the US that have cumulatively raised more than \$25 billion in publicly reported funding. In particular, the group:

- Identified about 350 FinTech and financial health companies for further research from Oliver Wyman's database of roughly 7,000 financial services companies, based on:
 - Qualitative database review to identify relevant companies that are focused on the financial health of mass market consumers or otherwise cover a wide range of FinTech solution types, stages of maturity, funding levels, etc.
 - Review of ecosystem reports and market maps by industry researchers and stakeholders, such as CB Insights, the International Finance Corporation, and the Center for Financial Services Innovation to supplement database review.
- Conducted detailed research on about 350 FinTechs and financial health companies, including solutions offered, consumer financial needs addressed by those solutions, revenue models employed, qualitative assessment of marketing and accessibility to mass market consumers, most recent valuation (where reported), and more. To collect this information, we referenced company websites, public disclosures, news articles, and the actual FinTech product (e.g., in some cases, we downloaded and signed up for the mobile app itself).
- Performed quantitative analysis using the data set, including exploring the concentration of FinTechs within revenue models, payer types, and consumer financial needs; funding levels along these dimensions; differences in revenue models employed by when companies were founded; and more.
- Performed a qualitative review of the data set to synthesize insights from the data and identify companies for further deep dives and case studies as part of this research.

All of the companies included in the data set serve consumers directly (e.g., through B2C or B2B2C models), though some also offer B2B solutions in addition to their consumer-facing solutions. The companies in the data set serve all types of consumers, from the working poor to the mass market and the mass affluent.

We analyzed companies' offerings and marketing (via their websites or applications) to define a subset of companies that focus on mass market consumer financial health. Companies classified as focusing on mass market consumer financial health met two conditions. First, they were accessible to mass market consumers and addressed a financial need (e.g., companies with high minimum account balances or that served only accredited investors would be excluded). Second, their marketing indicated accessibility to and interest in improving the financial lives of mass market consumers.

APPENDIX C

METHODOLOGY FOR FINANCIAL HEALTH VALUE QUANTIFICATION

Exhibit 2 in the introduction quantifies the potential value that existing FinTech solutions could create for the median American household in a single year across their financial needs.²¹

The analysis leveraged data related to the product holdings and activity of US consumers across their financial lives. The analysis leveraged the Federal Reserve's 2016 Survey of Consumer Finances as a key source of data, supplemented with assumptions from other public sources (e.g., Bureau of Labor Statistics, Brookings) and Oliver Wyman benchmarks.

For each financial need (e.g., grow), we determined a range of potential actions that the average consumer could take to improve their financial health using solutions available in the market (e.g., improve rates they earn on savings, reduce management fees paid). In cases where solutions are commonplace, we tended to analyze average yields and costs of products compared to the yields and costs that could be achieved using best-in-class financial health tools from startups. In cases where a financial health tool is emerging and traditional institutions do not typically offer a solution (e.g., access to earned wages), we examined only the upside of using the financial health tools available today.

The analysis articulates what benefits could be achieved for mass market Americans, not what upside is realized today. As a result, it does not assess operational or experiential roadblocks that would limit consumer adoption or usage and reduce the benefit articulated, and it should not be interpreted to mean that these benefits are currently being realized in aggregate or at large scale. However, we believe that even these estimates are conservative in two key ways:

1. The calculations reflect the single year benefits of using these solutions, rather than the net present value of these benefits over an extended time horizon. This results in an understatement of benefits across categories but particularly in areas like "grow," where compounding is particularly important.

2. Modeling is limited to benefits that are more straightforward to calculate but is not comprehensive in the estimate of how consumers could benefit. For example, benefits not modeled include how:

- Improving your credit score will result in better rates and lower payments across lending products (Borrow).

- Extra savings and better education related to credit might reduce consumers' borrowing needs in the first place and therefore reduce borrowing costs (Borrow).
- Many consumers buy insurance beyond homeowners, rental, and auto insurance (which we modeled). Some could find better rates on those plans (Safeguard).
- Increased penetration of insurance products could mitigate large losses that have severe, negative impacts on consumer financial health (Safeguard).
- Many consumers hold more cash in their portfolio than they should and do not invest enough, much less utilize every relevant tax-advantaged account (Grow).

²¹ Based on Oliver Wyman's Financial Needs Hexagon as developed for the 2018 State of the Financial Services Industry report.

REPORT QUALIFICATIONS/ASSUMPTIONS & LIMITING CONDITIONS

Oliver Wyman was commissioned by Omidyar Network to jointly review trends in the financial health landscape, particularly with regard to revenue models being employed. The primary audience for this report includes entrepreneurs, early stage investors, financial health advocates, and financial services professionals.

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