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Case Study: How Goldman Sachs changed the retail banking game — by entering it

Fintech Research Team | January 2019

Digital-only banks are redefining retail banking in major markets around the world. Spurred on by consumer frustrations with incumbents and growing willingness to use digital channels for accessing financial services, these tech-savvy players have acquired customers at pace and ramped up pressure on established firms.

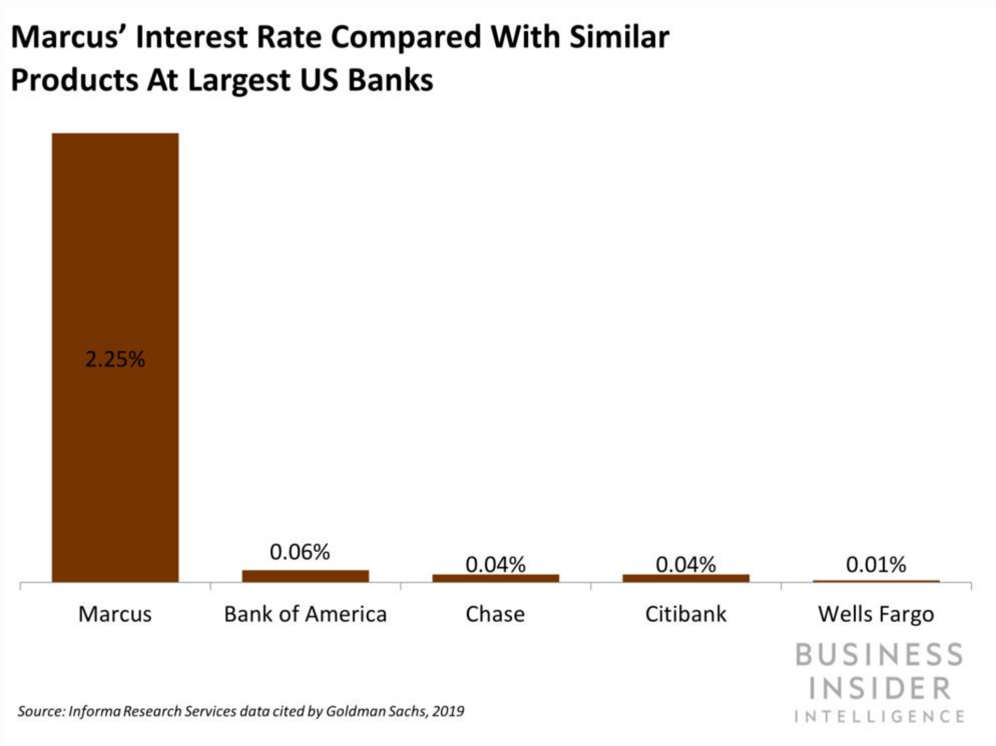
In the US, these challengers — which combine innovative technology to curb the operational costs of running a bank with a sharp focus on the consumer experience — got off to a slower start than elsewhere, especially compared with Europe. But they've begun gaining traction in the last year, with San Francisco-based neobank Chime recently passing the 2 million opened accounts mark, and Varo Money securing preliminary approval for a banking license in September. One of the most unique players at the forefront of this disruption, though, is a challenger brand, dubbed Marcus, launched not by a startup but by Wall Street giant Goldman Sachs.

To understand why Goldman launched Marcus and how it has set about disrupting retail banking in the US, Business Insider Intelligence spoke with Omer Ismail, US head of consumer digital finance in the Americas for Goldman Sachs.

Challenge: Goldman saw retail banking's sluggish approach to digitalization as an opportunity to start a new business line. While shifts to digital platforms have managed to transform everything from the way people hail a cab to how they order food, financial services lagged behind in offering consumers similar digital capabilities, according to Ismail. For Goldman, this lack of options and variety in the retail banking landscape offered a business opportunity for the investment bank to leverage its resources and deliver financial services to consumers through convenient and efficient digital channels. While unmet consumer needs made retail banking attractive to Goldman, it's likely that part of its motivation to enter this segment was also driven by profitability challenges in its core investment business following the 2008 financial crisis.

Strategy: Goldman launched Marcus in 2016 with highly competitive core products. The platform offered fixed-rate, fee-free unsecured loans of up to $30,000, with interest rates set between 5% to 23% — as of now, it's upped this to $40,000, with rates ranging from 6.99% to 24.99%, per its website. Marcus was aiming to respond to some pain points identified by customers when borrowing money — including unexpected interest rates charged on credit cards. It bolstered this offering with the introduction of its high-yield savings accounts, and has since periodically increased rates: It currently pays 2.25% for deposits, which it claims is four times the national average.

Additionally, Goldman has made several acquisitions for the Marcus brand. In 2017, it acquired small business lender Bond Street, allowing it to scoop up the fintech's talent pool, and similarly acquired the team from Final, a credit card startup, in January 2018. The most notable investment it's made, however, is personal finance management (PFM) app Clarity Money, which it purchased last April. Marcus has since integrated with Clarity Money, allowing users to open a Marcus savings account directly through the PFM app. Marcus also expanded geographically for the first time in September 2018 with a launch in the UK. In contrast to its strategy in the US, where it began with a consumer lending product, the first service it's rolled out in the UK is a high-yield savings account that pays 1.5% interest.


Marcus' Interest Rate Compared With Similar Products At Largest US Banks
2.25%
0.06%
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Marcus
Bank of America
Chase
Citibank
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Source: Informa Research Services data cited by Goldman Sachs, 2019

Result: Marcus has taken in $35 billion in customer deposits and originated $4 billion in loans since its launch. For context, N26, one of Europe's largest neobanks, holds €1 billion ($1.13 billion) in deposits, though it's worth noting its accounts are generally used for everyday transactions. The platform's highly competitive rates are one of the drivers of this success, helping the business to acquire more than 3 million customers in just over two years across lending, US and UK deposits, and Clarity Money, Ismail said. Meanwhile, within the first month of its UK launch, the bank opened more than 100,000 accounts, per CNBC, with deposits for its UK operations already reaching $7 billion. Going forward, Marcus may begin offering other products including credit cards and mortgages, per a Goldman Sachs presentation cited by CNBC, which would likely boost these numbers even further, especially if the company sticks with its strategy of offering highly attractive propositions that undercut the competition.

Our take: Incumbents should look to Marcus as a blueprint for their digital bank ambitions. Incumbents looking to roll out their own challenger brands would do well to learn from Marcus — the outfit has managed to succeed by essentially operating as a startup housed within an incumbent. It is unencumbered by legacy technology, while also being backed by the deep pockets of its well-known parent. This is an extremely powerful combination that could help incumbents transform for the digital age if they can effectively emulate it. Already, a number of major retail banks in the US are testing these waters: Finn by Chase and a yet unnamed brand by Citi are two examples. However, successfully mirroring Marcus' success will require more than just building a tech-forward brand backed by a pile of cash; critically, it will also necessitate designing a platform from the ground up using modern infrastructure. That's what will set these outfits apart in the future, especially as newer technologies like open application programming interfaces (APIs) and AI come into play.

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