

# Banking With N26

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## Introduction

N26, originally known as Number 26, was founded in February 2013 by Valentin Stalf and Maximilian Tayenthal in Berlin, Germany. The company's mission was to redefine banking for the digital era. Initially, the company operated as a financial technology firm with a banking license provided by its partner, Wirecard.

The company commenced its operations by offering a free current account and a MasterCard, leveraging its user-friendly interface and mobile-first service to attract customers. In January 2015, the company introduced its flagship bank account and MasterCard product to customers in Germany and Austria. In July 2016, following its expansion to multiple European countries, it obtained its own banking license. This milestone granted the company greater independence and enabled the expansion of its services. In the same year, the company rebranded from Number 26 to N26.

Throughout its journey, N26 introduced various features, including international money transfers, investment products, and premium accounts. By 2017, the company had expanded its presence to 17 European markets. In 2019, the company made its foray outside of Europe by launching in the United States. However, in November 2021, it announced its decision to withdraw from the US market, intending to refocus on Europe. By the end of 2022, N26 had experienced significant growth, serving over 8 million customers across the globe. This expansion underscored the increasing global acceptance of digital, mobile-first banking.

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## Business Model

The primary contribution of N26 comprises a complimentary checking account, a MasterCard debit card, real-time push notifications for transactions, and the capability to establish subaccounts for saving or budgeting purposes. The company also provides a range of supplementary financial products, such as overdrafts, personal loans, and insurance plans, in collaboration with other financial technology firms.

N26 relies on a multifaceted business model that aims to generate revenue through various channels. First, the company adopts a freemium model, in which basic accounts are provided free of charge, granting customers access to core banking functionalities. The company also offers premium accounts, such as N26 You, N26 Business You, N26 Metal, and N26 Business Metal. These premium accounts entail a monthly fee and offer supplementary features, such as worldwide free ATM withdrawals, travel insurance, and exclusive partner offers. The subscription fees associated with these premium accounts constitute a significant revenue stream for N26.

Second, N26 generates revenue through interchange fees. Each time a customer uses an N26 card for a purchase, the merchant's bank pays an interchange fee, a portion of which is received by N26. This revenue model is common in many banks and card providers.

Third, N26 generates revenue through the provision of overdrafts and personal loans. Similar to traditional banks, N26 earns interest on the funds that it lends to customers.

Fourth, N26 embraces a marketplace model for additional financial services. It collaborates with various financial and insurance technology companies to offer services such as investment products and insurance. It also earns a commission for each customer who enrolls in these services through their platform. The following companies are examples for the types of firms that N26 collaborates with:

- **TransferWise:** N26 has partnered with TransferWise to allow its customers to conveniently transfer money abroad in various currencies directly from their N26 app.
- **Raisin:** N26 has joined forces with Raisin, a savings and investment marketplace, to allow its customers to create savings accounts with competitive interest rates.
- **Allianz:** N26 has formed a partnership with Allianz, a renowned insurance company, to allow N26 premium account holders to access insurance coverage, including travel insurance and extended warranty protection for purchases.
- **Auxmoney:** In Germany, N26 has partnered with Auxmoney, a peer-to-peer lending platform, to offer loan products to a wider range of customers.
- **Clark:** N26 customers in Germany can use the Clark app, integrated within the N26 app, to manage and purchase various insurance products.



## N26 and Open Banking

As a digital-first banking platform, N26 strongly aligns with the principles of open banking. Open banking is a framework that enables banks and other financial institutions to grant third-party providers (TPPs) access to customer data through application programming interfaces (APIs). The goal of open banking is to stimulate competition, encourage innovation, and enhance consumer choices within the banking industry. Open banking practices are greatly influenced by regulatory changes, such as the introduction of the Revised Payment Service Directive (PSD2) by the European Union in January 2018. The following are the objectives of the PSD2:

1. **Enhancing consumer protection:** The PSD2 introduces stringent security requirements for electronic payments, ensuring the security of consumers' financial data.
2. **Stimulating innovation and fostering competition:** By mandating banks to grant licensed TPPs access to customer account data (with customer consent), the PSD2 aims to create a more competitive environment. This opens up opportunities for new business models and services in the banking and finance industry.
3. **Standardizing payment services across the European Union:** The PSD2 seeks to establish a unified market for payment services within the European Union. It aims to make cross-border payments as easy, efficient, and secure as domestic transactions.

Within the framework of the PSD2, two types of TPPs have emerged (see **Figure 1**):

1. **Account information service providers:** These providers can access account information in order to offer customers consolidated views of their various bank accounts.
2. **Payment initiation service providers:** These providers can initiate payments directly from the user's bank account on their behalf, presenting an alternative to conventional card payments.