

A Case Study on

# Advanzia Bank

Efficient Digital Banking Journey of a Niche Bank

Frank Schwab, July 2024

## Executive Summary

Advanzia Bank, a Luxembourg-based direct bank established in 2005, has carved a niche in the European banking sector by focusing on credit cards and payment solutions, operating exclusively through online and phone channels.

- 🚀 grew its credit card customer base from 1.2 million in 2017 to 2.6 million in Q1 2024
- ↗ achieved €100 million in annual profits with a team of 200 people
- 👉 outperformed the average 15% Return on Equity (RoE) for consumer finance specialists in Germany, reaching 38%
- ❗ maintained a Cost-Income Ratio (CIR) below 40%, while the German average for banks is around 75%
- 💡 proves that doubling down on investments in technology pays off and increases productivity by 50 %

The bank's strategic focus and digitalization efforts have led to significant growth, with credit card customers increasing from 1.2 million in 2017 to 2.6 million in Q1'24. Advanzia's free Mastercard Gold credit card, with no annual fee, has been a key attraction for cost-conscious consumers. The bank's total turnover on all cards reached EUR 6.3 billion in 2023, with an average loan balance of EUR 1,700 per active customer. Despite economic challenges in 2023, including rising funding costs and an increase in non-performing loans, Advanzia's long-term performance remains strong, outperforming the average Return on Equity (RoE) for consumer finance specialists in Germany. The bank's commitment to digitalization is evident in its investments in software and technology, with key milestones including the implementation of AI-powered fraud detection, new mobile apps, and a full digital migration to the cloud. Advanzia's success is attributed to its customer-centric approach, agility, data-driven decision-making, and strategic partnerships. The bank's future growth strategy may involve a combination of organic growth through creative digital marketing and inorganic growth through specialized mergers and acquisitions.

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## Objective of this case study is to understand Advanzia Bank's niche strategy and digital journey

This case study aims to explore the digital banking strategies employed by Advanzia Bank and their broader implications for the banking industry. As digital transformation continues to reshape traditional banking paradigms, understanding the strategies and practices of highly efficient institutions like Advanzia Bank becomes imperative. By dissecting Advanzia's niche strategy and approach to digital banking, this study aims to extract valuable insights that can inform and inspire stakeholders across the banking spectrum. From identifying emerging trends to elucidating best practices, examining Advanzia's strategies offers a unique vantage point for navigating the complexities of the contemporary banking landscape. Through this exploration, we aim to uncover actionable lessons that can drive strategic decision-making within the broader industry context.

### Advanzia's Bank profile in a nutshell

Since its establishment in 2005, Advanzia Bank has successfully carved a distinct niche in the European banking sector by differentiating itself from traditional universal banking models. Unlike these conventional institutions, Advanzia operates exclusively through online and phone channels, eschewing the need for costly physical branches. This direct banking approach allows for significant cost savings, which are then passed on to customers through competitive interest rates and fees.

Nestled in the heart of Europe, Luxembourg serves as Advanzia's strategic headquarters, providing not only a socially and politically stable environment but also a regulatory framework overseen by the CSSF. Its regulatory oversight underscores Advanzia's commitment to compliance and transparency as it extends its services seamlessly across borders, catering to a diverse clientele spanning 16 countries within the European Union.

Advanzia Bank (Dec 2023)	
Established	2005
Country	Europe
Balance Sheet	4.1bn EUR
Profits	97.5mn EUR
Return on Equity	29.5%
Employees	208
Cost Income Ratio	34.8%

Advanzia strategically focuses its product offerings on credit cards and payment solutions. This specialization enables the bank to cultivate expertise in these specific areas, thereby tailoring their services to meet the unique needs of their clientele. By partnering with retailers and financial institutions, Advanzia expands its market reach through co-branded credit cards, tapping into existing customer bases and leveraging partner brand recognition.

One of Advanzia's key attractions is its free Mastercard Gold credit card, which boasts no annual fee. This has proven to be a significant draw for cost-conscious consumers seeking credit solutions. The bank generates revenue primarily through interchange fees, interest income from revolving credit, and fees from supplementary services. With 2.6 million credit card customers, Advanzia has solidified its position as a leading issuer in Germany, while

simultaneously carving out a significant presence in key European markets including Luxembourg, Austria, France, Spain, and Italy.

Country	Market Entry	Credit Card Customers (Dec'2023)	Gross Loan Balance (Dec'2023) (MEUR)
Germany	2006	2,090,600	2,456
Luxembourg	2006	2,700	6
France	2012	106,200	186
Austria	2015	147,000	166
Spain	2019	102,700	122
Italy	2021	89,600	36

### Advanzia's product portfolio is focused, still dynamic

Advanzia Bank's product portfolio centers on its flagship no-fee Mastercard Gold credit card, offering attractive benefits like free travel insurance and interest-free purchases. They complement this with a high-yield deposit account featuring zero fees. In addition, Advanzia caters to businesses and financial institutions with their "Card-as-a-Service" solutions, enabling partners to quickly launch and manage custom-branded credit card programs.

#### *MasterCard Gold Credit Card*

- Complete digital application
- No Annual Fee, No Cash Withdrawal Fees and No charges for international transactions
- Interest-free purchases for up to 7 weeks
- Free Travel Insurance

#### *Advanzia Deposit Account*

- Zero charges and fees
- 3.76% interest from the very first euro with no reduction in the interest rate for higher deposits

#### *Card-as-a-Service: Co-branded Credit Cards for Business Partners*

- Tailored incentive schemes
- Global contactless payments with zero forex fees
- Fully digital experience
- Bank manages process and assumes all risk
- Capable of launching premium credit cards within weeks
- Simple integration into partner's customer journey

#### *Card-as-a-Service: Turnkey Credit Card Solutions for Banks and Financial Institutions*

- Capable of launching credit cards within weeks
- Cost reduction by up to 90%
- Customizable journeys, designs, products and credit limits
- Manage card programmes on real-time basis

- Assumed fraud risk and regulatory compliance
- Simple integration from simple add-on to core of partner's customer-binding strategy

### Strong business results are underpinned by key metrics

Bank's unwavering financial strength, strategic market focus, and digitalization endeavours have culminated in noteworthy achievements, marked by continuous expansion in both customer base and credit card loan balances. Specifically, the number of credit card customers has surged from 1.2 million in 2017 to 2.6 million in Q1'24, exemplifying the company's sustained growth trajectory. Further, the Bank, within German Market (which comprises 83% of its total credit card loans), demonstrated a notable increase in market share, reaching 24% in 2023 compared to 22% in 2022.

	2017	2018	2019	2020	2021	2022	2023
Number of Credit Card Customer (in million)	1.2	1.4	1.7	1.9	2.0	2.2	2.6
Number of Deposit Customer	33,400	38,600	45,600	49,600	49,100	51,900	58,900
Number of Distribution Partners	140	163	246	246	262	270	280
Balance sheet size (in million EUR)	1,729	1,971	2,548	2,650	3,126	3,248	4,156
Profit after tax (in million EUR)	47.03	59.07	73.28	100.48	120.73	122.41	97.50
CIR in %	38.60%	35.50%	34.40%	34.30%	31.60%	32.30%	34.80%
Capital adequacy ratio	14.20%	16.90%	21.29%	21.33%	24.78%	19.38%	22.37%
Credit volume (in billion EUR)	1.23	1.49	1.72	1.91	2.26	2.61	3.04
Deposit volume (in billion EUR)	1.45	1.65	2.01	2.07	2.22	2.36	2.71
Payment transactions in million	31.1	41.6	51.8	55.6	63.2	74.4	90.6
NPL/NPE	4.10%	4.60%	4.90%	4.00%	4.10%	5.10%	6.00%
Return of Equity	40.60%	41.10%	36.70%	42.40%	36.70%	42.20%	29.20%

Concurrently, the bank's introduction of targeted campaigns for new depositors and loyalty initiatives for existing customers has contributed to a substantial increase in the number of

deposit customers, rising from 0.30 million in 2017 to 0.60 million in 2023. Furthermore, the deposit balance exhibited robust growth at a commendable Compound Annual Growth Rate (CAGR) of approximately 11%, increasing from EUR 1.45 billion in 2017 to EUR 2.71 billion in 2023. This augmentation has not only enhanced the bank's capitalization but also bolstered its liquidity position significantly.

On cards side, the total turnover on all cards reached EUR 6.3 billion or EUR 3,900 per performing active customer in 2023, while the average loan balance per active customer amounted to approximately EUR 1,700. Advanzia's main income driver, the gross loan balance, amounted to MEUR 3,039 at the end of the year, corresponding to a year-on-year increase of 16.3%. In Germany and Luxembourg, the Credit Card had a total gross loan balance of MEUR 2,463 by the end of the year 2023.

Over the span of five years, from 2017 to 2022, the bank has exhibited an extraordinary trajectory of profitability. Witnessing a surge from EUR 47 million in 2017 to EUR 122 million in 2022, the profit after taxes (PAT) showcased an outstanding CAGR of 21%. This phenomenal growth stands as a demonstration to the bank's robust financial performance and the efficacy of its management strategies.

However, the narrative of Advanzia Bank's profitability encountered a pivot in 2023, witnessing a downturn in net profits to EUR 98 million as compared to EUR 122.41 million in 2022 resulting in lower Return of Equity from 42.20% in 2022 to 29.20% in 2023. This decline was multifaceted, driven primarily by rising funding costs (as further detailed in Revenue Generation and Margins Segment) and the challenging macroeconomic climate resulting in increase in Non-Performing Loans (NPL) by 90 basis points in 2023. The increase in NPLs was partly attributed to the expansion of lending activities into new markets such as Spain and Italy, as well as to the weakened economic environment in Germany.

### Despite economic challenges, strategic strength prevails

In recent years, the performance of Advanzia Bank has markedly diverged from the broader trends observed in the German financial market. While the overall growth in consumer loans within Germany has been negative, Advanzia Bank has defied this trend with an outstanding CAGR of 16% in credit volume from 2017 to 2023. Similarly, the deposit landscape tells a compelling story of Advanzia Bank's robust growth. Nationally, deposits in Germany grew by CAGR of 4% over the same period, yet Advanzia Bank achieved an impressive CAGR of 11% growth in deposits.

	2017	2018	2019	2020	2021	2022	2023
Germany's GDP Growth	2.70%	1.00%	1.10%	-3.80%	3.20%	1.80%	-0.30%
Germany's Total Consumer Loans (in billions of EUR)	237.9	233.7	238	235.2	232.7	235.7	234.4
Germany's Total Deposits (in billions of EUR)	2,179	2,283	2,392	2,539	2,624	2,689	2,748

However, the economic challenges of 2023 have not left Advanzia Bank unscathed. The adverse conditions that led to negative deposit growth in Germany have also introduced stress into Advanzia Bank's loan portfolio. The bank's NPL ratio escalated to 6.0% in 2023, accompanied by a significant rise in total loan loss provisions from EUR 121.3 million in 2022 to EUR 164.3 million in 2023. In an effort to maintain its deposit base, the bank was compelled to offer higher interest rates, which in turn increased its cost of funds. These factors have inevitably impacted the bank's overall profitability.

Despite these challenges, Advanzia Bank's long-term performance remains notably strong. From 2016 to 2022, the average Return on Equity (RoE) for consumer finance specialists in Germany was 15%. Advanzia Bank, however, significantly outperformed this benchmark with a RoE of 38% during the same period. This impressive performance underscores Advanzia Bank's resilience and strategic acumen in navigating both growth opportunities and economic headwinds.

### Doing more with less – operational efficiency

	2017	2018	2019	2020	2021	2022	2023
Number of Employees	143	160	177	198	187	188	208
Number of Credit Card Customers per Employee	8,398	8,941	9,597	9,701	10,983	11,889	12,297
Assets per Employee (EUR '000)	12,092.55	12,310.29	14,397.76	13,383.34	16,717.10	17,278.97	19,978.87
Loan Volume per Employee (EUR '000)	8,594.41	9,325.00	9,740.11	9,500.00	12,117.65	13,898.94	14,610.58
Profit per Employee (EUR '000)	324.67	369.38	414.12	507.58	645.45	651.06	468.75
CIR in %	38.60%	35.50%	34.40%	34.30%	31.60%	32.30%	34.80%

It can be observed from the above data that the bank has significantly increased its operational efficiency over the years. The number of customers per employee has risen from 8,398 in 2017 to 12,297 in 2023, demonstrating a marked improvement in workforce productivity. In terms of

cost efficiency, the bank has successfully reduced its cost to income ratio from 38.60% in 2017 to 34.80% in 2023.

Additionally, the bank has enhanced its asset management and lending efficiency. The assets per employee have increased by approximately 65%, and the loan volume per employee has grown by around 70% from 2017 to 2023. These metrics collectively indicate a robust improvement in the bank's operational effectiveness and resource utilization.

### Digitalization Journey 2019 to 2023 and increasing IT Expenses

Software Cost	2019	2020	2021	20	2023
Spent during the year (EUR '000)	3,591	2,803	4,448	5,330	7,830
% of revenue	1.36%	0.95%	1.37%	1.41%	1.65%

Advanzia Bank has consistently invested in digital initiatives to enhance its operations and customer experience, with software costs steadily increasing but remaining below 2% of revenue. Key milestones include implementing a fully integrated workflow system and AI-powered fraud detection in 2019, launching new mobile apps and payment solutions in 2020, completing a full digital migration to the cloud in 2021, migrating to the Capitol platform and optimizing digital workspaces in 2022, and implementing AI-powered solutions and upgrading their core banking system in 2023. These investments have enabled streamlined processes, improved customer service, enhanced security, and increased operational efficiency.

Some of the digital initiatives undertaken by Advanzia year by year



- 2019
  - Roll Out of fully integrated workflow system for the customer service centre
  - Implementation of AI & ML tools for enhanced fraud detection
  - Completion of Implementation of Core Banking System (Microsoft based version of Temenos T24 Transact)
- 2020
  - New mobile apps for Austria, France and Spain
  - Rollout of Mobile Payment Solutions such as Google Pay, Apple Pay and Garmin Pay
- 2021
  - All of the bank's markets are now fully digitalised and migrated to the cloud-based digital banking platform
  - Implementation of Infrastructure as Service (IaaS)
  - Implementation of Robotic Process Automation (RPA) to optimise agent workflow systems as a basis for future enhanced automation and additional implementation of AI in the customer service domain.

○ 2022

- Migration of all banks to the Capitol platform and the successful launch of the new Capitol app
- Setup of the omni-channel platform and related cloud infrastructure and interfaces
- Optimise the digital workspaces for its employees and call centres. Virtual desktops and digital communication channels such as the launch of a new intranet were introduced
- Data Analytics Workbench providing a Scoring-as-a-Service framework & enabling real-time risk scoring

○ 2023

- AI-powered solutions, such as automated ID checks, a fully compliant electronic signature
- Roll out of new features and self-service options across its mobile apps and web portals, with aim to create a centralised touchpoint for customer interactions.
- A new vulnerability detection and management platform was implemented
- Upgrade of Core Banking system from Transact T24 R16 to T24 R21 TAF

## Personal experience report: It takes two weeks from ordering to activation of the free „gebührenfrei.de“ gold credit card of Advanzia Bank

To give this case study a personal touch, I applied for a "gebührenfrei" gold credit card from Advanzia Bank. The application process is straightforward, requiring only a few details such as name, address, date of birth, place of birth, email, and mobile phone number. The process is very quick overall, and you can complete the credit card application within a minute. However, after completing the application, you have to wait for two weeks before receiving the credit card and being able to use it. This procedure seems somewhat antiquated, and the two-week waiting period is significantly longer compared to neobanks and fintech companies.

The web app and mobile app are simple, intuitive, and very easy to use, offering a "no frills" experience.

I also researched Advanzia Bank and the "gebührenfrei" credit card on social media platforms like Facebook, Instagram, and TikTok. I only found their presence on Facebook, and the page appears somewhat outdated. There were no results on Instagram or TikTok. Instead of professional social media accounts, there are several videos from influencers warning against Advanzia Bank and the "gebührenfrei" credit card, describing the offer as a rip-off due to the high-interest rates.



## Unveiling Advanzia's Strengths

Advanzia Bank stands out in the competitive banking landscape owing to several core strengths that have propelled its success. At the heart of its operations is a dedication to a very focused product spectrum, leveraging digital technologies to streamline processes, enhance customer experiences, and drive innovation.

### *Limited product scope*

Advanzia Bank's laser focus on credit cards and payment solutions sets it apart from traditional universal banks. By concentrating their resources and expertise in this specific area, Advanzia can offer more tailored products and services that cater directly to the needs of consumers and businesses alike. This specialization allows them to be more agile and innovative, quickly adapting to market trends and technological advancements. While universal banks may offer a broader range of financial services, Advanzia's deep understanding of the credit card and payment landscape enables them to provide more competitive rates, flexible terms, and enhanced customer experiences. This focused approach has positioned Advanzia as a leading player in the European market, earning the trust and loyalty of millions of customers.

### *Customer Centricity*

Advanzia Bank has not only just focused front-end solutions such as mobile apps, but also particularly about the digitization and automation of operational business processes such as automated ID checks, real time credit scoring, robotic process automation etc, which enable a seamless digital omnichannel customer experience. With the ongoing migration of the Capitol and Deposit web portal, coupled with other innovations such as the implementation of direct debit functionalities in Austria and the rollout of a new customer referral programme, Advanza continues to improve the user experience for its customers. No Charges and Fees thanks to digital onboarding and operational processes leading to lower acquisition & operational costs to the Bank. Multi-Lingual 24x7 customer service with the help of AI and ML technology.

	2021	2022	2023
Increase in Credit Card Customers ('000) (EUR)	133	181	323
Card Acquisition Costs ('000) (EUR)	33,684	47,270	52,150
Card Acquisition Costs per customer (EUR)	253	261	162

### *Rethinking business models and strengthening core competencies*

The focus of the Bank has been to drive the processes in a digital manner. The bank harnesses AI & ML technology for different use cases such as automated ID checks, real time credit scoring, customer service, fraud prevention, etc. Further, the Bank has been using tools such as IBM Cloud Pak & PowerBI for analysing data and developing credit models. These API-enabled models were key enablers for the new enrolment processes, reducing the time required to score incoming applications to less than one second in the Austrian market. All these technology initiatives have resulted in cut down of application process time from days to 10 minutes.

Further, the Bank exhibits a proactive stance towards business model innovation and exploring new avenues for value creation. The bank recognizes the importance of staying agile by adopting measures such as adopting cloud based digital banking platform, launch of app and web-based journeys, doing digital partnerships by offering Card-as-a-Service.

The bank employs iterative methodologies, rapid prototyping, and customer feedback loops to expedite the launch of innovative products and services. This agile approach allows Advanza to quickly respond to market demands and deliver superior value propositions to its customers. The bank achieved third place at “Cloud Innovation Project of the Year” awards issued by Cloud Community Europe Luxembourg in 2022 for its cloud-native UX digital platform that provides omni-channel touch points for customers across Europe.

### *A strong business partner network*

In order to concentrate on its core tasks and to be able to drive the digital transformation, Advanzia Bank has partnered with strong technology partners, who act as part of the value chain. The bank evaluates service providers based on a common digital agenda, and thus to build a long-term business relationship which is clearly evident from the bank's partnerships with Backbase and ITSS Global for adoption of cloud-based banking platforms.

And even if numerous tasks are outsourced to service providers, the bank never hands over its own business activities, which is why professional partner management contributes significantly to their success.

### *Platform architecture as a business enabler*

Advanzia Bank had put its old systems and interfaces on a modern footing as quickly as possible in order to make operational processes more efficient and to be able to make optimal use of scaling effects and new digital services. It was the first Luxembourg digital bank to adopt a cloud-based infrastructure using Microsoft's Azure Cloud services. The cloud business platform ecosystem is enabling Advanzia to easily partner with solution providers and FintTechs that can quickly adapt to changing customer trends and business needs, such as seamlessly integrating CaaS services into clients' IT infrastructures.

Further, the bank is planning to replace its legacy payment processing system of TSYS by a new standalone platform in 2024-25, providing continued support to improve processes and provide seamless customer services.

Advanzia Bank has API-driven interfaces between internal and external systems and partners, supporting real-time services and process automation such as user onboarding, credit scoring, KYC, etc and help to digitally map complex business processes end-to-end.

And, successful data management is part of Advanzia Bank's holistic platform solution. The implementation of the Data Analytics Workbench solution has improved data management practices and simplified end users' access to data. This has helped the bank to develop credit models reducing the time required to score incoming loan applications to less than one second in the Austrian Bank. Further, the Bank is expected to explore additional improvements to the data platform, such as data sandboxing and state-of-the-art data processing

### *Human capital development and cultural transformation*

A successful digital transformation can only be realized with a cultural transformation, as the far-reaching change processes require a different kind of cooperation, but above all leadership. Management of Advanzia has been actively working to embed the culture of digitization within the organization. In one of the interviews at "Der Bank Blog" in 2022, Roland Ludwig, former CEO of Advanzia Bank, mentioned that the focus of the bank has been to strengthen the internal teams and provide them with the right training & technologies and structures that help them to successfully master the new challenges and actively shape the necessary change processes.

## A Compelling Niche Strategy

Advanzia Bank's niche strategy is intricately woven into its robust digital adoption and distinct business and operating models. By leveraging latest digital technologies, the bank has carved out a unique position within the competitive banking landscape, focusing on customer-centricity, efficiency, and innovation.

### *Digital Adoption for Enhanced Customer Experience*

**Omni-Channel Customer Enrolment:** Advanzia Bank successfully implemented a harmonized application and onboarding process in Austria, reducing enrolment time from days to minutes. Leveraging AI-powered solutions, such as automated ID checks and real-time credit scoring, Advanzia significantly boosted customer satisfaction.

**Continuous Innovation:** Advanzia continuously rolls out new features and self-service options like KYC, payments, support, etc across its mobile apps and web portals, aiming to create a centralized touchpoint for customer interactions. With the ongoing migration of the Capitol and Deposit web portal, coupled with other innovations, Advanzia continues to improve the user experience for its customers.

**Dynamic Support:** Bank's omni-channel approach provides a variety of touchpoints for customers to engage with the bank and manage their financial products – mobile, digital and in real-time. These channels range from a classic customer service hotline to mobile apps and desktop portals, email and social media, offering an array of self-service functionalities.

### *Competitive Positioning and Differentiation*

Advanzia's competitive positioning within its chosen niche is strengthened by its relentless pursuit of innovation and customer-centricity:

**Strategic Partnerships and Ecosystem:** The bank leverages emerging technologies, Infrastructure-as-a-service, microservices (such as risk scorecards, automated KYC, digital signing, etc) and a partnership ecosystem to provide scalable, customer-centric solutions. The bank recently completed its migration to Capitol platform which further facilitates faster GTM of CAAS solutions for its partners. Advanzia has been to crack business partnerships with over 280 companies, associations and financial institutions for its CaaS offering due to quick go-live capabilities within weeks and simple integrations.

**Omni-channel Approach:** With over 2 million credit card customers across six countries, Advanzia caters to a diverse clientele through an omni-channel approach. From mobile apps to service centres, the bank offers multiple touchpoints for customer engagement, ensuring a seamless user experience across channels.

**Lean and Seamless Processes:** Advanzia's commitment to lean and seamless processes is evident in its digital transformation journey. From streamlining customer onboarding to optimizing operational workflows through RPA, the bank prioritizes efficiency and agility in its operations.

### *Sustainable Growth and Market Expansion*

Advanzia's niche strategy is underpinned by its focus on sustainable growth and market expansion:

**Market Entry and Product Development:** The bank's expansion into new markets, such as Italy, and the launch of innovative products like Carta YOU demonstrate its commitment to growth and innovation. Carta YOU is the first credit card product in the bank's international portfolio to offer a fully digital onboarding process as part of its omni-channel approach. By offering fully digital onboarding processes and value-added services, Advanzia aims to enhance customer loyalty and revenue streams.

**Cloud Infrastructure and Scalability:** By embracing cloud-based infrastructure and Infrastructure as Service (IaaS) models, Advanzia ensures scalability and cost-efficiency in its operations. The bank's ability to upscale and downscale in response to market fluctuations positions it for long-term growth and resilience.

In essence, Advanzia Bank's niche strategy epitomizes a harmonious blend of digital innovation, customer-centricity, and operational excellence. By continually pushing the boundaries of digitalization and fostering strategic partnerships, the bank not only differentiates itself within its niche but also lays a robust foundation for sustained growth and competitiveness in the dynamic banking landscape.

### *Revenue Generation and Margins*

Advanzia Bank's revenue generation model is distinctive, primarily anchored by its provision of fee-less credit cards to customers and the reception of savings deposits. Despite the absence of traditional annual fees on its credit cards, the bank strategically leverages various income streams to drive profitability. A significant component of its revenue stems from interest income, derived primarily from two sources: customer loans and bank placements (which include money market placements). By judiciously deploying capital into interest-earning assets and extending credit to customers, Advanzia maximizes its interest income potential while ensuring prudent risk management practices.

Interest Income ('000) in EUR	2019	2020	2021	2022	2023
Customers	263,244	293,525	325,039	375,311	443,822
Financial institutions	256	219	132	2,697	30,278
<b>Total Interest Income</b>	<b>263,244</b>	<b>293,525</b>	<b>325,039</b>	<b>375,311</b>	<b>443,822</b>

Moreover, the bank's fee-less credit card model is complemented by a focus on interchange fees generated from merchant transactions and foreign exchange fees. These transaction-related fees, coupled with interest income from revolving credit balances, contribute to a diversified revenue mix that mitigates dependency on any single income stream. By providing fee-less credit cards, Advanzia not only attracts a broad customer base but also fosters long-term customer loyalty and engagement, driving sustained transaction volumes and revenue

growth. Overall, the bank's revenue generation model exemplifies a balance between innovative digital banking offerings and traditional income streams, positioning Advanzia as a resilient and dynamic player in the digital banking sector.

#### *Strategies for maintaining healthy margins*

In the dynamic landscape of digital banking, maintaining healthy margins amidst market volatility and competitive pressures requires a strategic and adaptive approach. Advanzia has strategically positioned itself to navigate these challenges by implementing several key strategies. Amongst, the bank focuses on optimizing operational efficiency and cost management. By streamlining internal processes, leveraging technology, and automating routine tasks, Advanzia minimizes overhead expenses while maximizing resource utilization. This lean operational framework enables the bank to preserve margins even in the face of fluctuating market conditions.

	2019	2020	2021	2022	2023
Net Interest Margin %	9.60%	10.30%	10.20%	10.70%	9.80%

Three pivotal factors have significantly influenced margins in recent years for Advanzia Bank.

- 1) Interest Rate on Customer Loans: The European Central Bank (ECB) embarked on a series of rate hikes throughout 2022, raising the rate from approximately 0.50% to 3.75%. Despite this, Advanzia has kept its interest rates unchanged for existing customers in Germany and Austria. However, from March 2023, Advanzia has begun a phased increase in interest rates for new clients in these regions, aiming for long-term advantages.
- 2) Interest Income from Financial Institutions: The interest income from financial institutions experienced a remarkable surge from EUR 2.70 million to EUR 30.28 million, accompanied by a rise in loans and advances to financial institutions from EUR 161.35 million to EUR 193.35 million. Notably, within this lending portfolio, there was an uptick in interest-bearing money market placements with financial institutions, which increased from EUR 85.00 million to EUR 125.81 million. These money market placements represent term deposits with other banks or financial institutions, where Advanzia strategically allocates its spare liquidity.
- 3) Funding Cost: In tandem with the adjustments in interest rates, Advanzia undertook measures to enhance liquidity and ensure robust funding mechanisms. Notably, the bank increased the deposit rate in 2023, aiming to bolster its funding base and strengthen liquidity reserves. This strategic move, however, resulted in a substantial increase in total interest expenses on deposits, soaring from EUR 16 million in 2022 to EUR 90 million in 2023. Despite this adjustment, the bank demonstrated resilience and sustained profitability, achieving a profit after tax of EUR 98 million in 2023 compared to EUR 122 million in 2022.

### *Sound Risk Management*

Advanzia Bank's risk management approach in 2023 included implementing a state-of-the-art vulnerability detection platform and, in 2024, introducing a new identity governance service. The bank also enhanced online security with two forms of Strong Customer Authentication (SCA) and two-factor authentication requiring an additional four-digit code. Credit risk management involves the Risk Modelling Function, which reports to the Credit Risk Committee and oversees policies, risk assessments, and exposure limits. Model risk mitigation is supported by the Analytical Lifecycle Management Framework (ALMF), ensuring the quality and validation of models using comprehensive data collection. These measures reflect Advanza's commitment to robust risk management and adaptability in a dynamic banking environment.

## Lessons learned

### *Key Findings and Insights*

Through our exploration of Advanza Bank's strategies, it has become clear that the bank has developed a strong niche banking business model based on robust digitalization efforts. Several key findings and insights have surfaced:

#### *Customer-Centric Approach*

Advanzia's relentless focus on meeting customer needs through innovative digital solutions has been a cornerstone of its success. It has adopted various digital solutions and measures to improve customer experience such as new mobile apps in Austria, Spain & France, rollout of mobile payment solutions, automated id checks, self-service options for KYC, payments, support, omni-channel support and many more. By prioritizing user experience and convenience, Advanza has strengthened its customer relationships, leading to an increase in its market share in Germany from 22% in 2022 to 24% in 2023 and 16.47% growth in Credit Volumes, despite the current economic challenges.

#### *Agility and Adaptability*

The bank's ability to swiftly adapt to changing market dynamics and technological advancements such as cloud based digital banking systems, mobile apps and online journeys, underscores its agility. Advanza's proactive approach in embracing new technologies has enabled it to stay ahead of the curve in the rapidly evolving digital banking landscape. It was the first Luxembourg digital bank to adopt a cloud-based infrastructure.

#### *Adoption of Artificial Intelligence*

The bank understands the importance of adopting AI technology for better functioning, risk management and customer experience. It has adopted AI technology across various domains

such as credit scoring, customer support, optimising agent workflows and operations, fraud detection and prevention, etc. showing it's forward approach to adoption of new technology.

#### *Data-Driven Decision Making*

Leveraging data analytics and insights, Advanzia has gained a deeper understanding of customer behaviour and preferences. The implementation of Data Analytics Workbench has improved data management practices and simplified end users' access to data. It provides centralised data access empowering all business departments through self-service capabilities and facilitating it's use for predictive behavioural models and campaigning, customer segmentation modelling and cross-selling opportunities. This data-driven approach has empowered the bank to tailor its offerings and personalize the customer experience, thereby fostering loyalty and satisfaction.

#### *Broader Implications for the wider banking industry*

Advanzia Bank's digital banking strategies offer valuable insights and implications for the wider banking industry:

**Focus on the core:** A small team of 200 people with a focused business model can achieve solid results, with a Return on Equity of 40% and a profit after tax of EUR 100 million.

**Embrace Innovation:** The success of Advanzia underscores the importance of embracing innovation in digital banking. Banks should prioritize investment in cutting-edge technologies and digital capabilities to enhance customer engagement and drive growth.

**Customer Experience is Paramount:** Advanzia's unwavering commitment to delivering exceptional customer experiences serves as a blueprint for other banks. Prioritizing simplicity, convenience, and personalization can significantly enhance customer satisfaction and loyalty.

**Agility as a Competitive Advantage:** In today's fast-paced digital landscape, agility is key to staying competitive. Banks must cultivate a culture of agility and adaptability to respond effectively to market shifts and customer demands.

**Data Utilization for Personalization:** The effective utilization of data analytics enables banks to gain actionable insights into customer behaviour. By harnessing the power of data, banks can tailor their offerings to individual preferences, driving customer engagement and retention.

## Advanzia's Future – from organic via creative to inorganic growth?

Given Advanzia Bank's current product scope, its existing market share in Germany, the challenges of organic growth into new markets, the increasing NPL/NPE, and changing market conditions, I believe the bank should focus on establishing a more creative digital marketing strategy. Additionally, there may be opportunities for specialized inorganic growth.

### *Unlocking Organic Growth: Advanzia Bank's Multi-Pronged Strategy for Customer Engagement and Loyalty*

In case Advanzia prefers to grow organically I believe that Advanzia Bank can unlock organic growth potential by crafting a creative strategy centered on community building, data-driven personalization, gamification, and innovative marketing. This multi-pronged approach not only would attract new customers but also would foster deep engagement and loyalty.

Community building starts with creating exclusive online and offline spaces where cardholders can connect and share experiences. For instance, Advanzia Bank could cater to travel enthusiasts by establishing a dedicated online forum where members can exchange travel tips, reviews, and itineraries. Additionally, Advanzia Bank could host exclusive travel-themed events like destination webinars or photography workshops, fostering a sense of camaraderie among its customers.

Data-driven personalization takes center stage as Advanzia Bank leverages customer insights to tailor rewards, benefits, and communication. Imagine Advanzia Bank catering to foodies analyzing spending patterns to identify customers with a penchant for fine dining. These customers could be offered personalized rewards like exclusive access to Michelin-starred restaurant reservations or discounts on gourmet food delivery services. This level of personalization not only enhances the customer experience but also drives card usage and, consequently, revenue.

Gamification and challenges inject an element of fun and excitement into the banking experience. Advanzia Bank could design a spending challenge where customers earn points for every purchase made at eco-friendly businesses. As customers accumulate points, they could unlock rewards like donations to environmental charities or discounts on sustainable products. This approach not only incentivizes card usage but also aligns the bank's values with those of its customers.

Innovative marketing and communication efforts round out the strategy. Advanzia Bank targeting tech-savvy millennials could launch a social media campaign featuring influencers showcasing the benefits of their card in creative short videos. Advanzia Bank could also partner with popular fintech apps to offer seamless integration and additional perks, attracting a wider audience.

In conclusion, a niche credit card bank's growth strategy hinges on creating a vibrant community, delivering personalized experiences, gamifying financial interactions, and communicating innovatively. By seamlessly integrating these elements, the bank can cultivate a loyal customer base, drive card usage, and achieve sustained profitability in an increasingly competitive market.

*Acceleration of business growth by highly specialized M&A activities*

Advanzia Bank could aggressively pursue acquisitions of smaller European financial institutions specializing in niche markets or specific product offerings, leveraging their expertise and customer base to expand its own portfolio and market share. To achieve this, Advanzia could establish a dedicated and highly specialized M&A team to identify and evaluate potential targets, conduct due diligence, and negotiate favorable terms.

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