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THE FUTURE OF NEOBANKS IN THE DEVELOPMENT OF BANKING SECTOR

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The explosion of mobile technology and people's distrust for traditional banks following the economic crisis make this a fertile time for new financial firms. The first wave of neobanks came on the scene in the early 2010s, and they have seen varying degrees of success. Today the landscape is shifting, with some neobanks acting more and more like traditional banks, even as traditional banks try to compete with the neobanks by launching stand–alone brands. In addition, fintech firms that operate in other sectors – primarily lending – are getting to the deposits business.

So, what is a neobank? The most common definition of a neobank is an institution that provides some combination of checking accounts, savings accounts and debit cards via digital channels – primarily mobile –without any physical bank branches [1]. Neobank apps tend to be slick and simple, designed to help you better understand, and hopefully improve, your saving and spending habits. In general, a neo–bank is an institution that provides checking, a prepaid debit card and some form of savings account without the traditional brick–and–mortar building [6]. This usually includes features like mobile deposits, P2P payments, mobile budgeting tools and real–time digital receipts. Put simply, a 'neobank' is a bank sitting on a 100% digital and mobile platform (so no branches) but more than that, its systems are 100% new too (not legacy) so it is not simply a digital front end to a traditional (and mostly cumbersome from a technological perspective) bank [10].

Neobanks provide easy and simple account start–up with strong digital support, and exceptional (24/7) customer support [6]. You do your banking via smart phones, at ATMs. The neo–bank is ideal for young people with simple banking needs.

Neobanks are completely digital banks built on new technology as opposed to the outdated infrastructure of legacy banks. They usually tout better interest rates, lower fees, if any, and better service. They have an easier time creating a good customer experience because they don't build on the rusty rails of the existing financial system, making the way they operate more efficient and the user experience more enjoyable.

Neobanks are known as "challenger banks" in Europe and some people argue that challenger banks shouldn't be confused with neo–banks. While neo–banks offer a mobile–first banking experience in partnership with a traditional bank, challenger banks aim at becoming fully–licensed banks, creating new data–driven banking experiences and pricing models [6]. But for the purposes of our study we will use neobanks and challenger banks as equivalent concepts.

Neobanks differ from traditional banks because of the next features:

- low cost structure: no monthly fees, no withdrawal costs and low reloading fees;
- large ATM networks with no fees;
- no overdraft fees because the checking products are prepaid, reloadable debit cards;
- a simple and engaging mobile experience, unlike banking on a phone with a traditional bank;
- intuitive budgeting and money–tracking tools that allow you to determine whether or not you should buy an item;

–real–time balances: the balance on your smartphone is the exact amount of money you have available.

The other main difference is the breadth of products they offer. Neobanks have been purely deposit focused, but experts say many are looking to expand beyond deposits as they evolve from startups backed by venture capitalists to viable and profitable companies [1].

Examining geographic distribution of neobanks, we can observe that most of them are located in Europe, with some interesting solutions in USA and Canada, big demand in Brazil and low activity in Asia (which motivates Asian banks and investors look closely at what is created abroad, invest in it and work in collaboration with teams involved on how to bring these solutions to Asian markets). The majority of European neobanks work in the UK: Monese (55K installations of mobile app, £41M worth of transactions), Tandem (raised £22M being valued at £65M), Monzo (35K clients in a waiting list) and others [5].

Neobanks are focused on new market clients (not on the whole market, which is always comprised of current/old clients mostly) that influence their brand positioning, the language of communication and perception. These clients have never been served by traditional banks – by force of age or geographical position, as developing countries are characterized by low level of banking services penetration. There are several neobanks which have been created for the Snapchat generation already. A new level of client service and support is characteristic of newcomers – one may ask any question (literally any question in any sort of language) in messenger or via video communication in the same way one asks for advice from a friend – and it will be answered immediately.

To consider neobanks as another distribution channel or cost cutting possibility is a fundamental mistake. To be purely online service or traditional company, selling certain product via online channels, are two absolutely different things.

But there are some disadvantages of neobanks. If you're paid in cash, a neobank isn't likely your first choice. While there are options to deposit cash via special Internet sites, sometimes the sites charge a fee [1]. Also there are some concerns about security of neobanks because there is always an opportunity of hacking into your account.

So, what is the future of neobanks?

I would suggest four scenarios for the future of neo–banks:

1. Neo–banks are acquired and assimilated into larger financial brands;
2. Larger brands start their own digital "neo–bank–like" brands;
3. Neo–banking fails to become a viable business model, but nevertheless influences the industry;
4. Neo–banking becomes the dominant method of accessing underlying accounts held at traditional banks.

Most analysts believe we will see dozens, if not hundreds, of neo–banks launch in the next few years. Neobanks are doing a remarkable job in completely changing the banking experience of a customer. Though the products neobanks offer are same as traditional banks, they impress customers with features like real–time analytics and cash flow forecasts. These banks are basically technology companies with a banking license and they're digital first. The speed at which one can open a savings account, using their apps, is amazing. So, though neobanks have their own challenges like attracting customers, long–term cash flows, security concerns and so on, I can see a lot of potential for them, especially in developing countries.

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