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# Neobanking

Neobanking is the new all-digital, no hassle approach to banking.

# Overview

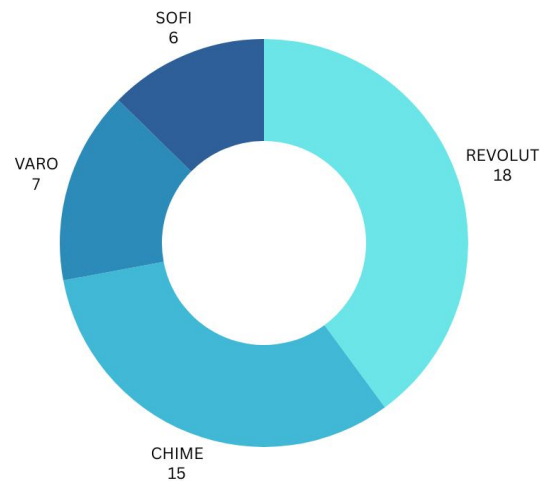
Neobanking refers to a digitized form of a traditional bank. Neobanks solely operate online, meaning that a neobank has no physical branches or locations and instead relies on apps and websites. It may appeal to more tech-savvy consumers, as neobanks usually incorporate newer features such as AI and feature personalization.

One of the key attractions of neobanks is their lower fees, especially on transactions, loans, and checking/savings accounts. Many traditional banks have multiple overhead costs associated with maintaining physical locations and staff, which contribute to higher fees for users. Neobanks, by operating exclusively online, can avoid these costs, passing on the savings to customers in the form of lower fees or more competitive interest rates. As a result, neobanks have become popular among individuals seeking affordable banking solutions.

While many neobanks initially catered primarily to personal users, offering streamlined interfaces designed for individual use, the industry is gradually expanding to include services for small businesses and entrepreneurs. However, the majority of neobanks still focus on personal banking, offering simple, intuitive apps that allow users to manage their finances with ease, whether they're transferring money, paying bills, or tracking spending habits.

# Key Players

Big names in the neobanking industry include Revolut, Chime, Varo, and Sofi, among others. Revolut has established a strong international presence, serving customers in over 200 countries. Varo and Sofi are U.S.-based but also available internationally, catering to a broader audience beyond U.S. borders. In contrast, Chime is exclusively available in the United States. Below is a graphic depicting each company's respective market share in terms of active users as of 2022.



# Characteristics of Neobanking

The neobanking industry is distinguished by its completely digital and branchless approach, which is optimized for mobile and web platforms. It capitalizes on low-cost services, including fee-free banking, attractive interest rates, and charge transparency.

Neobanks are known for their highly user-friendly interfaces, quick onboarding, and cutting-edge financial capabilities such as real-time notifications, budgeting, and spend analytics. Certain neobanks, such as Chime, allow users to join without a credit check, allowing people with low or no credit access to banking services. Unlike traditional banks, neobanks usually rely on partnerships with licensed companies such as Visa or Mastercard for regulatory compliance and infrastructure, allowing them to concentrate on customer experience and rapid scalability.



Chime partners with Visa to provide banking services, so Chime cards are allowed anywhere that you can use a Visa.

## Changes in Neobanking

The COVID-19 epidemic acted as a catalyst for the transition to digital banking, as consumers shifted their favor towards a more online approach for most things in their day to day lives. This consequently contributed to the rapid growth of the neobanking industry.

Furthermore contributing to this growth, data sharing across banks has been made quicker and easier by regulatory developments in open banking (the integration of third party financial interfaces into banking accounts), which has accelerated the integration of neobanks with a variety of financial systems. The competition has increased since traditional banks have also improved their digital capabilities. Neobanks have expanded their service offerings to include investments, insurance, and cryptocurrency services, contributing to the industry's consolidation.

## Neobanking's Future

The future of the neobanking industry is poised for substantial growth, with a forecasted market value of over \$2.80 trillion by 2028 and a CAGR of 11.83%. The neobanking market currently sits at \$1.79 trillion, with an average transaction value per user of \$28.85k .As technology continues to evolve, we can expect further integration of artificial intelligence, machine learning, and blockchain technologies to improve financial services, especially in areas such as fraud detection, personalized banking, and peer-to-peer lending. Neobanks will also greatly benefit from the use of AI for risk modeling, as AI algorithms can process vast amounts of data to create more accurate and dynamic risk models. These models can analyze customer behavior patterns to predict potential defaults or fraud, assess creditworthiness using alternative data sources, enabling neobanks to serve underbanked populations, and continuously update risk profiles based on real-time transaction data and market conditions.

# Neobank Market Map

In the future, neobanks will also likely expand their service offerings, going beyond basic banking to include more comprehensive financial products, such as wealth management, insurance, and even crypto services. Additionally, regulatory environments around the world are becoming more favorable toward fintech by relaxing regulation, which allows neobanks to enter new regions and grow rapidly.

## Investment Thesis

Neobanks represent a promising investment opportunity due to their rapid growth and high scalability, along with recent increased consumer interest from the public. Platforms like Chime, Revolut, and N26 have seen significant user adoption, driven by their ability to offer low-cost, user-friendly alternatives to traditional banks. Consumers are drawn to features like fee-free checking accounts, instant transfers, and budgeting tools that traditional banks often struggle to match.

As noted by Statista, the U.S. neobanking market continues to grow steadily, while countries like Brazil and India are also seeing high adoption rates as mobile banking becomes more accessible. Neobanks are also highly scalable due to their low overhead costs, as they operate without physical branches. Instead, they rely on cutting-edge technologies like artificial intelligence and machine learning to streamline services and enhance user experience. This allows them to operate more efficiently than traditional banks, making them attractive to consumers seeking convenience and value. The neobanking sector is forecasted to grow significantly, with the global market expected to surpass \$2.80 trillion by 2028. This growing market size, combined with their innovative and cost-effective business models, makes neobanks a compelling long-term investment, especially as consumer trust in digital financial services continues to strengthen.

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