

NEO - BANKS ARE CHANGING THE FACE OF BANKING

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Abstract: *A neo bank is a digital bank which often works only through a mobile app and has no physical branches. Neo banks provide a wider used experience than a traditional bank. The rise of neo banks is analogous to challenger models in other industries, such as Airbnb and Oyo for accommodation, and Ola and Uber for transportation. They provide similar products and services through different models, often adopting a more customer focused approach. Neo banks are gaining media attention and can be characterized in many ways. Neo banks are one kind of start-up collections to manage customer's money digitally. Everything that starts from account opening process to customer service experience is unlike traditional banking. This paper provides insight into the innovative components of Neo Banks, pros and cons of Neo Banks, major European Neo Banks customer numbers, total funding for major European and US Neo Banks. The present study is descriptive in nature and is based on secondary data. The study found that, neo banks are the real competitors to traditional banks in the market, with their reduced costs, advanced features, user friendly interfaces, user customization and new technologies.*

Key Words: *Neo Banks, Traditional Banks.*

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I. INTRODUCTION

The neo bank is an ideal concept for the young and tech savvy people who require simple banking requirements. A Neo bank offers everything a traditional retail bank has to offer, but with the major advantage of speed and instantaneity. For example, while adding a new beneficiary account for transferring funds, it takes few hours or 1-3 days at a traditional bank, due to multiple verifications, whereas for the same thing doing via Neo bank mobile application, it gets done in just three clicks. Payments can take up to 24 hours to show up on a traditional bank account but with Neo bank, customers get an instant notification confirming the transaction immediately after they pressed Submit/OK/Confirm button on the payment terminal and they receive a message with their updated balance instantly as well.

Well designed interfaces and unrivaled customer experience. Today, they are showing themselves as true competitors to the more traditional banks. Transportation is one of the best example to illustrate how new technologies have enabled real evolutions for a whole sector. The sector has seen some big changes thanks to companies like Uber and Blablacar. Another example is tourism with the rise of companies like Airbnb. Neo banks are bringing these same transformations to the banking world, uberizing banking in a way. A neo bank is a digital bank which offers a different and most of the time, broader user experience than traditional banks. Although the financial product offered is often similar, the interaction with it is totally different.

Neo banks are financial technology firms that offer digital mobile only financial services including: 1) Checking and savings accounts. 2) Payment and money transfer services. 3) Loans for individuals and businesses. 4) Other services including budgeting.

II. OBJECTIVES OF THE STUDY

1. To study innovative components of Neo banks and Well established neo banks in India.
2. To study the major European Neo banks customer numbers and total funding for major European and US Neo Banks.

III. RESEARCH METHODOLOGY

The present study is descriptive in nature and is based on secondary data. The data has been extracted from various sources like research articles, publications from Government of India, various bulletins of RBI and authenticated websites.

IV. REVIEW OF LITERATURE

- **Charles Keenan (2019)** the article entitled “Are Neo Bank Startups a Threat to Big Banks? Nor Yet”. In this article an attempt has made to covers how can challenger banks create a more profitable path forward, The study found that, neo banks add services, other successful fin tech operators have muscled their way into the checking and savings market, taking share.
- **K. R. Srivats (2019)** the article entitled “The Bank in Your Pocket is shaking up the Industry”. In this article an attempt has been made to study the NITI Aayog, digital payments, and Indian digital journey. The article also covers the era of money orders; there was a tectonic shift in the banking system with the introduction of computers in the mid 1980s. The study found that, digital payments set to touch \$1trillion by 2025, banks are bound to face an existential crisis if they don’t adapt. The study also found that, the real boost of digital payments came after 2012, when the department of financial services took the historic decision of making NEFT/RTGS free for customers.
- **Monika Gudova (2018)** the article entitled “Digital Banking and Neo Banks”. In this article an attempt has been made to study is digital bank and neo bank are the same thing, why does Australia need neo banks? What is artificial intelligence and how will neo banks use it, are neo bank and digital bank safe? The study found that, the idea of an online bank may seem a bit intimidating to us. As banks roll out new app features and handy online services, the ability of online banking grows and makes room for digital banks and neo banks to emerge.

V. CATEGORIES OF NEO BANK

- ★ **Licensed Digital Banks:** Startups which are licensed Ex. Paytm Payments Bank (India).
- ★ **Over the Top:** Startups which have tie-ups with other licensed banks Ex. Monese (UK).
- ★ **Bank Digital Initiatives:** These are traditional banks with a digital extension. Ex. CBD NOW (UAE).

VI. INNOVATIVE COMPONENTS OF NEO BANKS

Neo banks are real competitors to the ‘traditional’ banks on the market due to their reduced costs, advanced features, very user friendly interfaces, user customization and new technologies.

- ❖ **Fast Account Opening:** Most of the neo banks promise an account opening between 3 and 10 minutes. A bank account opening has never been so easy. From a simple form to a direct video call the setup process is a breeze.
- ❖ **International Payments:** Neo banks offer the usage of their debit card abroad for no fees and with the live exchange rates.
- ❖ **Crypto-Currencies:** Some neo banks offer the opportunity to open an account in crypto currencies. These accounts can be then used with the real time exchange rates.
- ❖ **User Friendly Interfaces:** Neo banks application have all one thing in common. They all are user friendly, responsive and well designed.
- ❖ **Expenses Analytics:** Neo banks application offer expense management for their customers. Users can instantly check their expenses by month, merchant, other.
- ❖ **Vaults:** Neo banks help you to save money for an objective. We can now round up all our transactions and put the spare change in vault. When our objective is reached we can buy what we have been saving for.
- ❖ **A Free Debit Card:** Most of the neo banks offer a free debit card. Moreover our card is manageable through the mobile application. We can block the card or change the password at any moment and instantly.
- ❖ **Instant Payments:** Some of the neo banks offer instant payments between their customers.
- ❖ **Multi Currency Accounts:** Some neo banks offer the possibility to open accounts in multiple currencies. Transfers within these accounts are instant and uses the market live rates.
- ❖ **24/7 Support:** Most of the neo banks offer an international 24/7 support through their app via an instant messaging system. They often use chat bots to start the conversation and speed up the initial process to categorize our request.
- ❖ **Instant Balance:** On the application we will always have an up to date balance, no need to wait a couple days to see a payment we made. Some even offer payment live notifications.

VII. WELL ESTABLISHED NEO BANKS IN INDIA

- ✓ T- Mobile: The oldest neo bank player in the market. Link: www.t-mobile.com.
- ✓ DigiBank (India) by DBS: Link: www.dbs.com.
- ✓ Fino Payments Bank: Link: www.finobank.com.
- ✓ Paytm Payments Bank: Link: www.paytmbank.com.

Table 1: MAJOR EUROPEAN NEO BANKS CUSTOMER NUMBERS (In Millions)

NEO BANKS	CUSTOMER NUMBERS
Revolut	2.00
N26	1.50
Monzo	1.00
Monese	0.50
Starling	0.32
Tandem	0.25

Source: Company Reports, 2018 Business India Intelligence

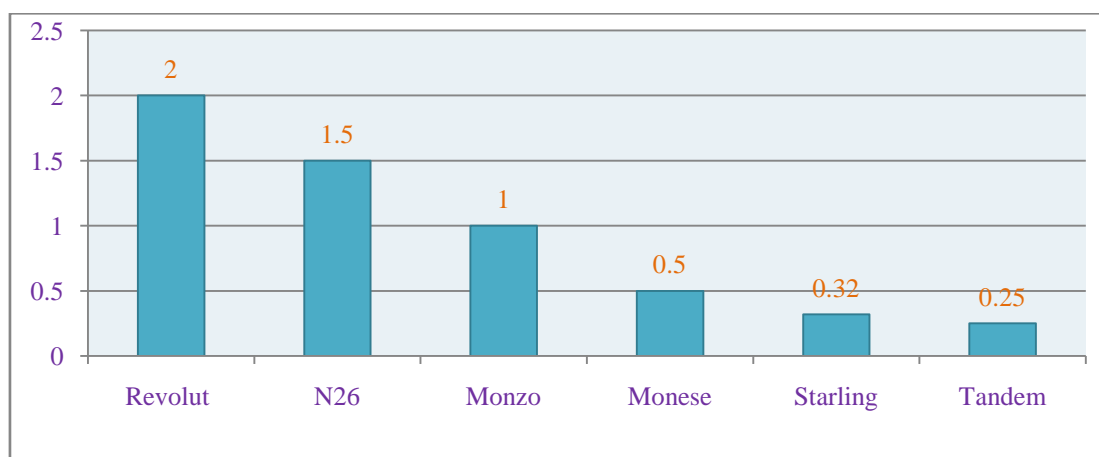


Table 2: CUSTOMER AWARENESS OF NEO BANKS IN THE UK (In percentage)

NEO BANKS	CUSTOMER AWARENESS
Atom Bank	19%
Monzo	10%
Loot	8%
Curve	7%
Starling	7%
Revolut	7%
Tandem	5%
Tide	4%
Monese	4%
N26	3%

Source: Money Supermarket, 2018 Business India Intelligence

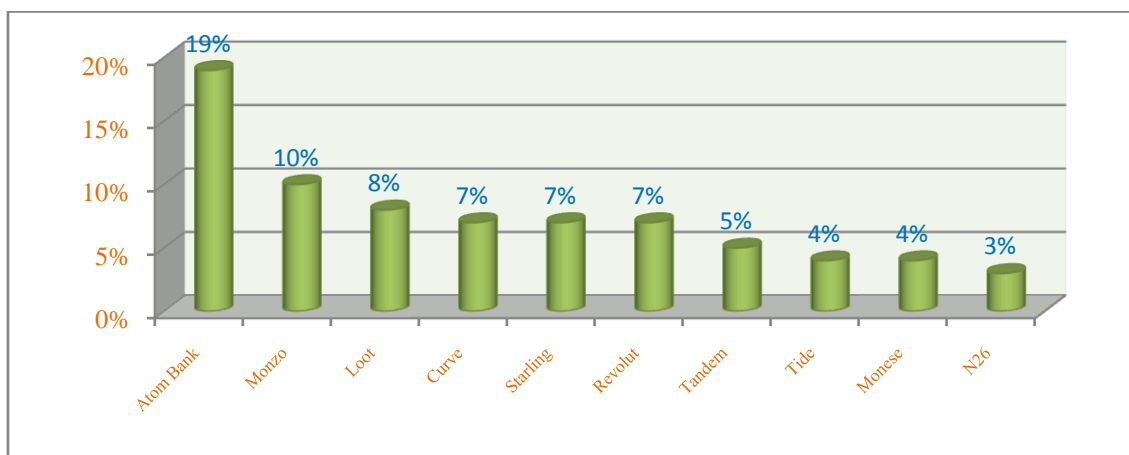


Table 3: TOTAL FUNDING FOR MAJOR EUROPEAN AND US NEO BANKS

(In Millions)

Particulars	Oak North	N26	Atom Bank	Revolut	Monzo	Starling	Chime	Varo	Aspiration
European	\$1000	\$512.8	\$466.5	\$336.4	\$267.6	\$180.8	-	-	-
US	-	-	-	-	-	-	\$113.5	\$78.4	\$67.5

Source: Crunch base, 2019 Business India Intelligence

VIII. LIST OF NEO BANKS

Some of the most notable and well established neo banks in the current financial and fin tech market

REGION	NEO BANKS	REGION	NEO BANKS
Australia	<ul style="list-style-type: none"> ▪ Tyro Payments ▪ Volt Bank ▪ Xinja 	United Kingdom	<ul style="list-style-type: none"> ▪ Atom Bank ▪ Revolut ▪ Starling Bank ▪ Tide bank
Canada	Koho	Poland	mBank
Denmark	Lunar Way	Finland	Holvi
Egypt	Dppay	Gulf (U.A.E.)	Xpence
FrNCE	Hello bank	India	Niyo
Italy	Soldo	Germany	N26
Japan	Jibuan bank	China	MYBank
Korea	Kakao bank	China (Hong Kong)	Neat
Brazil	<ul style="list-style-type: none"> ▪ Banco Original ▪ Nubank 	United States	<ul style="list-style-type: none"> ▪ Simple ▪ Chime
Russian Federation	<ul style="list-style-type: none"> ▪ Tinkoff Bank ▪ Rocket Bank 		

IX. ANALYSIS OF 15 MOST FUNDED NEO BANKS

NAME	DOMAIN	FUNDING YEAR	TOTAL FUNDING	COUNTRY	REGION
OakNorth	Oaknorth.com	2015	\$1 Bn	U.K.	Europe
N26	N26.com	2013	\$515Mn	Germany	Europe
nUbank	nubank.com.br	2013	\$420 Mn	Brazil	American
Revolut	Revolut.com	2015	\$361Mn	U.K.	Europe
chime	Chimecard.com	2012	\$300Mn	U.S.	Americas
M monzo	Monzo.com	2015	\$277Mn	U.K.	Europe
Starling bank	Starlingbank.co.uk	2014	\$180Mn	U.K.	Europe
Varo	Varomoney.com	2015	\$142Mn	U.S.	Americas
Solaris Bank	Solarisbank.de	2016	\$98Mn	Germany	Europe
masthaven	masthaven.co.uk	2014	\$77.8Mn	U.K.	Europe
monese	Monese.com	2013	\$75.8Mn	U.K.	Europe
TANDEM	tandem.co.uk	2013	\$75.7Mn	U.K.	Europe
Chetwood	Chetwood.co/	2016	\$70Mn	U.K.	Europe
voltbank	Voltbank.com.au	2017	\$45Mn	Australia	Oceania

X. FINDINGS OF THE STUDY

1. Neo Banks have benefitted hugely from word of mouth, driven in part by their bold branding, delightful experience and sometimes controversial stance against traditional banking.
2. The majority of neo banks have community forums to create engagement with their customers and insights around key topic areas.
3. Neo banks offer innovative features and offerings simple and fast online account opening, free debit card, instant payments and lower costs as compared to traditional banks.
4. Neo banks are the real competitors to traditional banks in the market, with their reduced costs, advanced features, user friendly interfaces, user customization and new technologies.

XI. SUGGESTIONS

1. The emergence of neo banks has the potential to fundamentally improve the way people take control of their financial health and meet consumers needs better than the industry has before - in both emerging and developed markets.
2. To win the minds of new customers travelling abroad, neo banks clearly show how much cheaper (often free) it is to get one of their accounts for an upcoming trip than it is to use their incumbent bank account whilst abroad.

3. Design to be social, many even prompt their users to share animations and key money moments on social media, so that the world can see what an incredible user experience they are having.
4. Create a sense of belonging, generating higher engagement and brand loyalty by having community platforms.

XII. CONCLUSION

A Neo Bank is the mobile first banking experience that has moved away from the traditional banking experience. This usually includes features like mobile deposits, person-to-person payments using phone numbers, emails or even social media identities, mobile budgeting tools and real time digital receipts. Neo banks have been operating in the international market such as the US and Europe for quite some time now and have catered to an unbanked section of the society. Neo banks are like any other banks, but the only difference is their end to end services are digital. While some banks have started their own neo banking platforms, several startups have collaborated to a banking license to launch such digital startups. A neo bank is the mobile first banking experience that has moved away from the traditional banking experience. This usually includes features like mobile deposits, person-to-person payments using phone numbers, emails or even social media identities, mobile budgeting tools and real time digital receipts. To compete with existing traditional and tech banks, neo banks needs to determine their point of differentiation and offer relevant products at competitive prices towards gaining a more engaging customer experience.

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