Leveling up: Three targets for Neobank's next growth opportunity

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INTRODUCTION

One of the true financial sector success stories through the pandemic and over the past decade has come from neobanks. By 2021, in just over a decade, the industry grew to $47 billion in market value. At least one estimate projects the industry to grow to at least $2 trillion by 2030.

The success of their offerings has caused traditional financial institutions to take notice, leading some large banks to copy what neobanks have done.

“Neobanks’ success has forced larger banks to launch their own digital initiatives,” said Abdul Naushad, CEO and president of Buckzy Payments, which provides a real-time cross-border payments network to financial companies. “They don't want to lose the market, so that's why big banks have launched digital-only offerings.”

Though first wave growth has been impressive, neobanks do face challenges ahead, ones that can derail what otherwise look like rosy growth projections. How can neobanks ensure impressive growth while protecting themselves from traditional firms encroaching on their success? Doing so will require working within their ecosystem of third-party partners to extend offerings to a greater number of consumers, including individuals, businesses and those across borders.

Continue reading to learn more about how neobanks can maintain growth while also ensuring services keep up with the quality and speed that neobank customers have come to expect.

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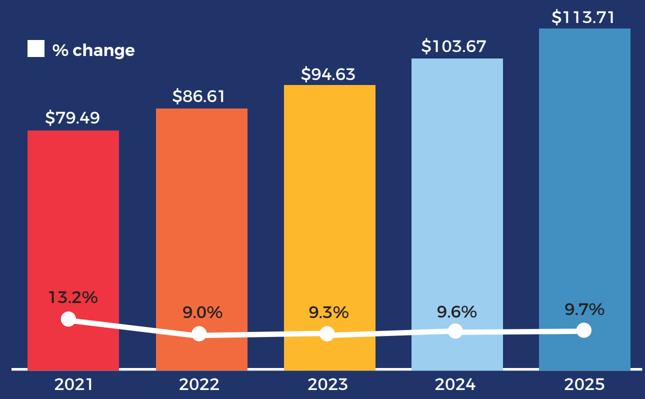
THE NEOBANK CONUNDRUM

Neobanks' growth came from a recognition of an opportunity in the market. Burdened by intricate, aged infrastructure, traditional financial institutions could not move quickly to address customer concerns and points of friction by offering digital solutions. But neobanks could incorporate tools to address basic savings, checking and budgeting needs better suited to current technological possibilities. This was clearly of great interest because it drew users quickly.

Today, traditional financial institutions have watched this success and have added features that mimic the neobank experience. Within these institutions, digital innovation spending is estimated to grow by over 9% per year through 2025.

US Total Banking/IT Technology Expenses, 2021-2025



Total banking/IT technology expenses (billions)

Note: Includes expenses by banks with FDIC-backed consumer and business expenses and savings accounts; expenses include core systems maintenance, modernization, innovation, transformative technology, data processing, equipment, software, digital initiatives, compliance, and cybersecurity

Source: Insider Intelligence, March 2021

Among neobanks' greatest strengths is the ability to capture a person's entire financial picture across multiple accounts, which provides customers with a clear look at their spending. But now Bank of America, Capital One and others have begun to offer similar tools providing such a picture. PNC Bank has a virtual wallet that allows users to capture all their spending and the ability to set constraints on such spending, along with alerts to offer notices on fees or unapproved purchases. While these features reflect neobanks' 1.0 offerings, they also provide a glimpse into where financial institutions have begun to move.

Meanwhile, neobanks have captured a strong user base, though most of their customers do not bank exclusively with the neobank in question. Instead, the neobank typically provides a place to put a small amount of users' overall net worth. If traditional banks begin to look like neobanks and offer similar features, these users could be disincentivized to remain with the newer fintech firms.

"Neobanks did have a head start in creating a better user experience and acquiring significant users," said Abhinov Balagoni, CEO and founder of Pax Credit, a neobank out of Singapore focused on international students. With the impending competition from traditional financial institutions, they will have to create deeper relationships with their users through multiple product lines or serve additional customer segments using their products.

In short, neobanks will need to keep adapting. They must take advantage of their ability to move faster than traditional institutions. In order to foster the right kind of adaptation, and move quickly, neobanks can lean on strategic partners to achieve success.

RETHINKING CUSTOMERS

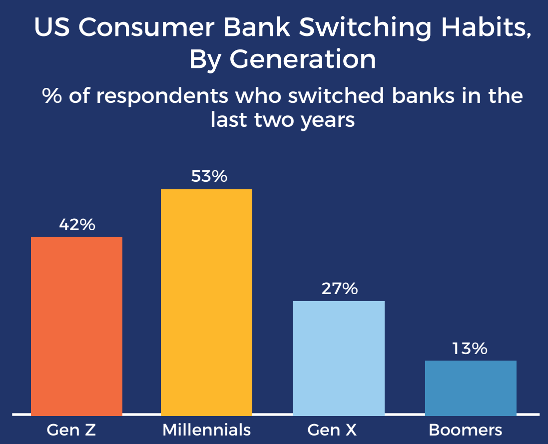
Neo- and challenger banks have grown out of a clear purpose and identity, targeting specific niches within their customer base. This has resulted in a wide swath of banks, some targeting individuals while others focus on small businesses or specific geographies.

"One advantage neobanks have is that they're more flexible," said Naushad. "They have ways to offer products that a consumer — whether they are a Millennial or someone who has an interest in that product or service — does not have access to through a traditional bank."

As neobanks seek to drive further growth opportunities, this flexibility allows them to grow their customer base by expanding the tools and capabilities they offer.

Broadening the target customer

As neobanks built new customer bases, many of those customers came from the Millennial and Gen-Z age groups. According to one Capco survey, over 50% of Millennials changed banks in the last two years, while only 27% of Gen X and 13% of Baby Boomers did the same.



Source: Capco Banking Survey, 2021 © CCG Catalyst Consulting

Capco's survey findings indicate what many people already suspect:

Neobanks' primary customers are from younger generations. But this also provides opportunity to begin focusing on older generations as well — which grew their digital comfort-level during the pandemic. From 2020 to 2021, the rate of fintech adoption among those aged 56 and up doubled to 79%.

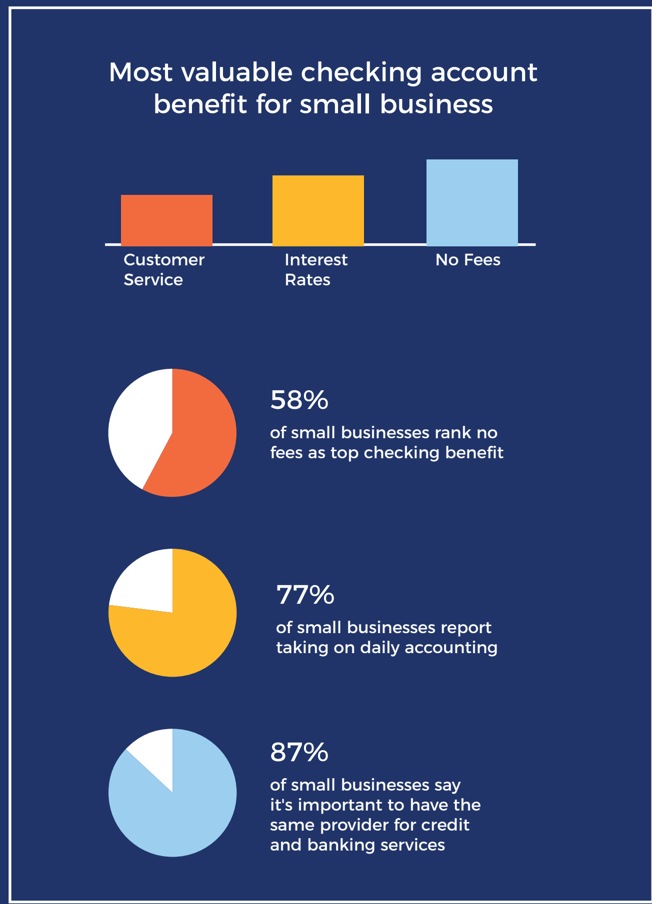
Neobanks have an opportunity to address this age group in greater numbers. But the needs of an older customer often differ from younger ones. For example, among retirees, the urge to travel often increases. Having tools, such as the ability to easily and safely transfer and send money across countries will create greater freedom of movement. In addition, giving older users the ability to easily transfer funds to their children will ease comfort and address concerns that arise from their kids who may also live across the globe. It gives features that an older customer may not find from their traditional institution.

While cementing these advantages requires rethinking some of the tools neobanks currently offer, with the right partner and capabilities, they can be incorporated quickly through an application programming interface (API).

Stretching further into small businesses

Often, one of the most overlooked groups by traditional financial organizations reside in the ultra-small business to small business space. These organizations, which may only have one employee, do not have the revenue level banks seek for their business services. Regardless, these businesses need more tools than a simple consumer checking or savings account. As a result, small business owners often cannot fully get what they need from a traditional bank.

Meanwhile, some neobanks, particularly in Europe and Latin America, grew due to their ability to handle complex dynamics between sending payments or accepting sales across multiple borders. This capability proved particularly valuable in Europe, where some countries are part of the European Union while others have systems catered to their own currency. Traditional institutions may not have the ability to adapt to the various needs of a small business operating in such a scenario, depending on where the small business is headquartered. But neobanks were built to address specific and complex needs like this.



Neobanks have the chance to increase services small business owners require, no matter where they operate. This can include any number of needs but must center on real-time tools that can ease or increase the speed in which they conduct business. For example, incorporating invoicing services that provide the ability to request payment from customers will produce real-time, cross-border transactions and will give these companies the freedom to operate wherever their customers, clients or employees reside. Easing payments also allows for stronger balance sheets, resulting in a better business and an advantage over competitors.

Achieving such solutions can be accelerated through using third-party partners and ecosystems that have a proven record of expertise in these areas.

Growing across borders

Prior to the pandemic, a few neobanks in Europe had begun to look across the sea to the U.S. for expansion. But due to regulatory concerns and issues surrounding the pandemic, some of the neobanks had to backtrack, either abandoning or delaying their expansion goals.

Looking toward the future, readdressing the idea of expanding services beyond one border can do much to aid the effort in attracting new customers in new and current markets. Still, with every new geography comes a host of new regulatory and compliance issues. Navigating compliance requires leaning on partners that can address regulatory frameworks and have a working knowledge of many different local concerns across the world. Equipped with this insight, neobanks will be able to offer more services, no matter the region.

"If any banking partner wants to set up shop in the U.S., for example, it's a huge regulatory burden on them," said Umesh Maini, Chief Product Officer at Buckzy. "Their underlying need is that they already have an existing customer base and they want to go live very quickly in another region; can they do it in a seamless manner in a matter of [a] few weeks? The answer is no, due to regulatory constraints. For any financial institution who wants to step into cross-border, that will be the single biggest headwind, without the right partner to ease the process."

Leaning on partners like Buckzy, who are focused on working in multiple currencies and have the practical knowledge to aid the regulatory and compliance concern, eases this transition no matter what market your organization may look to next.

This shift across borders becomes particularly attractive in areas where traditional financial institutions have yet to build out services to address local concerns. Neobanks have an ability to target the traditionally unbanked, which is a unique customer base that legacy institutions have long overlooked.

Unbanked Population

Morocco	71%	Greece	15%
Vietnam	69%	Malaysia	15%
Egypt	67%	Poland	13%
Philippines	66%	Latcia	7%
Mexico	63%	Israel	7%
Nigeria	60%	USA	7%
Peru	57%	Spain	6%
Colombia	54%	France	6%
Indonesia	51%	Italy	6%
Argentina	51%	Taiwan	6%
Kenya	44%	South Korea	5%
Romania	42%	Hong Kong	5%
Kazakhstan	41%	UK	4%
Ukraine	37%	Estonia	2%
Uruguay	36%	Austria	2%
South Africa	31%	Singapore	2%
Turkey	31%	Japan	2%
Brazil	30%	Switzerland	2%
Blugaria	28%	Germany	1%
Saudi Arabia	28%	Belgium	1%
Chile	26%	New Zealand	1%
Hungary	25%	Australia	0%
Russia	24%	Canada	0%
India	20%	Denmark	0%
China	20%	Netherlands	0%
Czech Republic	19%	Finland	0%
Thailand	18%	Sweden	0%
Lithuania	17%	Norway	0%
Slovakia	16%		

Source: Merchant Machine, 2021

CONCLUSION

Neobanks have shown a tremendous ability to adapt, which has led to their outstanding success. But as traditional financial institutions try to move into areas that have shown the most success within the neobanking space, it falls on these innovative fintechs to find a way to adapt further.

The good news? While traditional financial institutions want to shift towards digital initiatives, they struggle to do so quickly. This gives neobanks an opportunity to move into new areas or product lines that will produce the growing rates of revenue investors demand. But to make these adjustments quickly, neobanks should seek the right partner ecosystem to ensure their offerings work with ease and pass regulatory compliance based on the countries in which they operate.

“Third-party providers are an integral part of our product development as they enhance our product capabilities and shorten our go-to-market timeline,” said Balagoni. “With tools like Buckzy, we can support more regions with a quicker timeline and fewer engineering resources. A great third-party provider will facilitate win-win scenarios for both parties.”

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Founded in 2018, Buckzy Payments Inc. aims to transform the global money movement experience for customers the world over through our embedded finance platform and ever-expanding real-time cross-border payments network. Our proprietary payments ecosystem and technology platform facilitate cross-border, global payments and provide access to over 200 API's for financial institutions, neobanks, fintechs and service providers to build innovative, customer-centric solutions. Buckzy is headquartered in Toronto, Ontario with offices in India, the United States, the United Kingdom, the Netherlands and the United Arab Emirates.

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