The inevitable neobank spring and its drawbacks - Jordan Graison, Limonetik, Tirbune

Jordan Graison, Limonetik: "Neobanks can gain ground and overcome the obstacles of modern commerce: omnichannel retail and trade globalisation."

PARIS, FRANCE, May 5, 2020 /EINPresswire.com/ -- The neobank sector is booming and the implementation of the PSD2 in mid-September 2019 has definitely something to do with it. Two new types of players are emerging: AISPs (Account Information Service Provider) and PISPs (Payment Initiation Service Provider). This new legal framework, along with the creation of EMIs (Electronic Money Institutions) supported by PSD1, is about to revolutionise user interaction but, most of all, contribute to the rise of the neobank.

Jordan Graison, Head of Global Sales at Limonetik

Limonetik logo

Neobanks, startups, big banks, and big non-banking companies, all aim to gain a foothold in the new market of innovative retail banking. For instance, N26, Revolut, Monzo or Lydia are targeting private customers, while Qonto, Anytime, and Margo Bank are homing in on startups, merchants, and businesses.

Klarna, a Swedish unicorn, reached headlines in August 2019 when it raised USD 460 million, one of the biggest funding raise for a fintech. Klarna will likely to pivot, as they already operate in Sweden as a bank, with a good brand awareness to consumers.

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> *Jordan Graison*

Minimum service

Because of their totally virtual services, neobanks can be considered 'imperfect'. They do not offer all the services of a traditional bank and are still unable to measure up, not only because of service delivery or regulatory problems, but also for lack of bank capital. While Revolut, a British fintech, was raising USD 250 million, BNP Paribas already had a market capitalisation of USD 60 billion.

Moreover, customers have an ongoing issue with trust. Traditional banks, regardless of their efforts, may not offer an optimal user experience but their service portfolio makes up for it. These banks follow a model based on the three pillars of retail banking, namely: savings, lending money, and the ability to pay.

Neobanks, on the other hand, offer considerable benefits because they make life easier for customers. They offer state-of-the-art mobile applications with innovative options, bank cards that are often free and/or available at competitive prices and, above all, products that are accessible with no income requirements or initial deposit. On the down side, accounts have no overdraft authorisation, and cheques or cash cannot be deposited. Customer service is usually limited to a chatbot.

A security problem

Monzo Bank sounded the alarm after discovering an increased level of fraud. It then asked 480,000 of its 2.6 million customers to change their PIN codes. The problem of hacked accounts is a matter of cyber security, revealing just how vulnerable data is. In another incident, Revolut admitted in March 2019 it was unable to block suspect transactions on its platform. N26, a German unicorn, announced it was hiring of 300 employees for a new, dedicated cyber security division.

Data privacy is a major concern affecting the whole business ecosystem but is a ‘bête noire’ especially for neobanks, which are often more vulnerable than physical banks. Whether it’s a matter of fighting against money laundering or protecting personal data, the security of financial transactions and data is an absolute and fundamental priority.

How do neobanks see their future?

Retail banking has never been the sole challenge of the banking industry. Weighed down by costly resources (e.g. human, real estate), the retail banking is changing drastically, having to adapt and reinvent itself. Yet traditional banks seem to be moving away from this activity, which lacks direct profitability. With neobanks, inevitable but not yet profitable, we can ask a legitimate question: what will be their business model? We recall when Orange Bank, a mobile banking subsidiary of French telecom operator Orange, announced in late 2018 it would reach stability by 2023 despite heavy losses.

Moreover, these new players in the financial game raise the fundamental social question of financial inclusion. As neobanks are digital, they could tend to exclude customers who are not computer geeks or who do not have online access (e.g. broadband connections or mobile telephony). In fact, most of the neobank clientele is made up of young people, travellers or business users.

Finding good partners in a world of omnichannel retail and globalisation

Neobanks are fintechs par excellence, all part of the same family. They surf the wave of innovative digital technology to optimise their financial services and reduce costs. In a world where innovation is the order of the day, their agility and creativity are strong qualities.

In close collaboration with other specialised fintechs, neobanks can gain ground and overcome the obstacles of modern commerce: omnichannel retail and trade globalisation. Payment service aggregators, who promote greater acceptance of international payment methods, can help them. Indeed, if an aggregator partner offers solutions to connect to networks online and offline via electronic payment terminals (EPT) in stores, a neobank can vastly expand its network for accepting payment methods and thereby boost its growth.

Conclusion

While traditional banks are stepping up their digital transformation with major acquisitions and investments in technology, neobanks, more exposed to risk, cannot yet offer stability at any cost. Witness the misadventure earlier in 2019 in the UK of Metro Bank, who saw its shares fall by almost 40% after admitting to an error in its regulatory obligations and reporting lower-than-expected results.

Yet it is a forgone conclusion that neobanks are challenging the traditional banking industry by offering greater agility and mobile-oriented services at a lower cost to the consumer. Moreover, a data-driven strategy suggests more responsible use of customer data. Neobanks can offer a more effective user experience with platforms developed through user-centric methodologies and state-of-the-art technologies that can address omnichannel retail.

Who will be the European service provider – like Alipay in Asia – to propose a solution that will build customer confidence? The bets are open!

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