

The benefits of neobanking over traditional banking

GZIRA, MALTA, April 13, 2023 /EINPresswire.com/ -- Neobanks are financial alternatives that have been gaining popularity in recent years among users worldwide. According to data from [Statista](#), the value of transactions made in the neobanking segment has experienced exponential growth in recent years. In 2017, the amount of transactions was 90 billion USD, in 2022 this amount significantly increased and reached 1.52 trillion USD. It is now estimated that by 2027 this figure will reach up to 4.66 trillion. In relation to this growth, it is possible to find studies like the one published by App Radar, which analyzes the number of Android app downloads, indicating that in Europe alone, fintech unicorns [had growth of 33% in 2021](#).

These numbers are reflected in particular cases. [For example](#), in Spain, according to data from Smartme Analytics, during the second quarter of 2022, 83.2% of Spaniards used financial sector apps. Furthermore, If you include the entire banking sector, neobanks hold 39% of the market, making them the second leading competitor after traditional banking.

Undoubtedly, thinking about the benefits of one product or another requires defining clear parameters to compare traditional banking with its most modern competitors. For this purpose, Oleg Cernisevs, CTO of Blackcatcard, an online banking service provider based in Europe, highlights some of the most important advantages for neobanking users.

One of the fundamental factors that best characterize these new financial service providers is the use of depositors' money. Unlike Credit Institutions, i.e. banks, Payment and Electronic Money Institutions, which do not have the right to use their client's funds. This is a significant advantage for those users who seek security and transparency in the management of their finances. In the same vein, regulators require these new financial institutions to back up the volume of clients' money with their own money. Therefore, the neobanks are obliged to report daily to the regulators their balance sheet, which must confirm that the amount of money in the Electronic Money Institution is the same as that of the clients' funds. In other words, there are asset reserves that effectively back up the users' e-money.

Traditional banks operate in a different way. They are also known as Credit Institutions and/or Financial Intermediation Institutions basically because they are allowed to receive money from third parties to manage and reinvest it autonomously. For example, with that money, they can buy shares or grant loans. It may initially seem irrelevant, but it is a determining aspect to consider and not be overlooked.

The unfortunate reality is that a bad investment can put the funds of a bank's clients at risk. As a way to minimize the impact and risk on a clients' deposits in case of a bank failure, since 2010 EU directives require all member countries to increase their deposit guarantee schemes up to 100 thousand Euros to protect customers' funds. It is worth noting that such an increase came just after the 2007-2009 crisis. However, under this scheme, if the bank fails, those who for one reason or another, have more than 100,000 Euros in their account will only receive up to 100,000 Euros in compensation. The rest of the funds may be compensated to the users after the repayment of other liabilities of the bank. If some funds remain, then it is possible to count on the repayment of the amounts above the previously paid 100,000 to the depositors as well. Perhaps this may seem like an exaggerated apocalyptic scenario, but just remember the very recent case of Silicon Valley Bank, a bank that generated a lot of confidence among different Start-ups and solid Fintech companies, which then shockingly reported millions in losses after the SVB collapse.

A neobank offers an important alternative for those who prefer to have full control over their funds. Better than a deposit guarantee scheme with limits, users of online banking services have their assets safeguarded in the account in which they deposited them, and no one else can use those funds.

Furthermore, there are reduced costs for clients when opening and using an account at a neobank. In many cases, a client can obtain a financial product without any charge, depending on the type of product and fulfilling some conditions, of course. If there is any type of commission, it is very likely to be lower than what is found in traditional banking for one very simple reason: neobanks operate entirely online, which greatly reduces operating costs.

With online and mobile banking, people can make the same money transfers they used to make at traditional banks, but even at lower costs. Additionally, thanks to agreements between new financial institutions and the most recognized payment processing corporations, users can receive payment cards to perform the most basic and necessary operations, such as withdrawing money from ATMs or paying in physical and digital stores.

New online financial institutions strive to be competitive not only in terms of price but also in terms of user satisfaction. While a traditional bank expects clients to literally come to a physical bank branch for basic services, neobanks make their service broader and more accessible to clients simply by having internet access.

Another benefit – neobanks' products are usually more transparent. In general terms, when clients, both individuals and companies, go to a traditional bank they find many documents and physical contracts that hide rates and commissions in the small print. On the other hand, neobanks tend to present the most complete and simplified information possible. It is difficult for an online company to hide anything from its clients, since they can easily and freely access all the information with a swipe of their finger.

Therefore, it is no coincidence that there are currently more than 570 e-money institutions registered in Europe, a number that number will likely continue to grow over the next few years. What can users expect from these relatively new market players? Well, the neobanks will certainly seek to continually improve their services in real time, with technological innovation as their main, competitive advantage.

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