

## Boosting Neobanks

### Why in news?

Bengaluru-based startup Open which is a neobank has recently become India's 100th unicorn.

### What is a Neobank?

- A neobank is a digital bank that does not have any branches and is entirely online.
- A neobank is a fintech firm that provides digital and mobile-first services like payments, debit cards, money transfers, lending, and more.
- In India, these firms don't have a bank licence of their own but rely on bank partners via corporate collaborations to provide licensed core banking services and over-the-top financial services.
- Neobanks provide products that come under the regulatory framework of the three financial regulators — the Reserve Bank of India, the Securities & Exchange Board of India, and the Insurance and Regulatory Development Authority of India.

*India's neobank startups raised more than \$230 million in 2020, according to a report by a fintech research firm.*

### What are the key models of Neobank?

- Neobanks in India presently work on two prominent models
  - Payment gateways
  - Payment banks
- They also serve non-retail customers like MSMEs with white-label solutions.

### How is a Neobank different from the traditional bank?

- Neobanks bridge the gap between the services that traditional banks offer and the evolving expectations of new-age customers.
- They do this by providing personalised experiences, employing data-driven insights and offering value-added services.
- While traditional banks continue to struggle with bringing their legacy-based infrastructure into the digital age, neobanks leverage its modern digital platforms modern digital platforms to analyse customer data and make data-driven decisions.
- Neobanks can also afford to slash customer fees by a significant amount since they don't have to bear the expenses of running physical locations.
- While neobanks don't have the funds or customer base to overthrow traditional banks, they have innovation to serve their customers much more quickly than traditional banks.
- Neobanks cater to retail customers, and small and medium businesses, which are generally underserved by traditional banks.

# What are the pros and cons of neobanks?

## Pros of neobanks

- **Low costs**-Fewer regulations and the absence of credit risk allows neobanks to keep their costs low. Products are typically inexpensive, with no monthly maintenance fees.
- **Convenience**- These banks offer customers the majority (if not all) of banking services through an app.
- **Speed**- Neobanks allow customers to set up accounts quickly and process requests speedily. Those that offer loa ..

## Cons of neobanks

- **Trust building**- Neobanks are at a disadvantage in building trust with customers when compared to traditional banks.
- **Regulatory hurdles**- Since the RBI doesn't yet recognise neobanks as such, officially customers may not have any legal recourse or a defined process in case of an issue.
- **Impersonal**- Since neobanks don't have a physical branch, customers don't have access to in-person assistance.
- **Limited services**- Neobanks generally offer fewer services than traditional banks.

# What initiatives have boosted the Neobanks?

- NITI Aayog's 2021 proposal to set up full-stack digital banks lays down the roadmap for a licensing and regulatory mechanism for neobanks.
- Initially, the RBI too conceptualised in its Report by Working Group on Digital Lending to enlist such neobanks in a regulatory sandbox.
- The Digital Banking Units (DBUs) Rules have been recently introduced in the 2022 Budget.
- Countries like the US, and many Asian economies like Singapore, China, Malaysia, Hong Kong, etc., have also adopted digital banking licensing regimes.

*The DBU rules allow only scheduled commercial banks with past digital banking experience to expand into digital units as separate banking outlets.*

## References

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