



Neobanks Are Growing – Are They A Threat?

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fintechs

digital banking

customer experience

Summary: Despite the name, neobanks aren't new. They have been around since 2009. Yet, these days, their presence seems to be expanding. Many bank customers have become more comfortable with digital banking since the pandemic, which has driven over 20MM Americans to have a neobank account. We explain what a neobank is, what customer benefits they provide, and the challenges they face.

Kane Tanaka of Japan is the oldest living person alive in the world at 118Ys old. This is quite an accomplishment, but she is not the oldest person who ever lived, yet. That achievement goes to Jeanne Calment of France who lived to be over 122Ys old, before she passed in 1997.

Neobanks haven't quite been around that long, but they aren't new, as their name suggests. In fact, the first one showed up 12Ys ago in 2009. But, they have largely focused on a certain segment of the population — young and digital natives — and have a limited assortment of offerings. So, most traditional financial institutions haven't been too concerned. However, the tide may be changing.

First of all, what exactly is a neobank?

A neobank is a fintech that offers banking services only online and primarily through a mobile app. Since they are not federally or state-chartered, they can't insure deposits, unless they are tied to a partner financial institution (FI) with deposit insurance. These are not just for consumers. We found at least three neobanks that are geared for small businesses — NorthOne, Bank Novo, and BlueVine.

Neobanks are growing in popularity. With many people feeling more comfortable with digital banking now, neobanks are becoming more popular. [About 7.7% of all Americans, or 20.2MM](#), are expected to have a neobank account in 2021. This is a surge of 40% YoY from 2020. Not only that, 65% of all new bank accounts opened digitally in 2021 will be done with a digital-only bank.

Neobank customer benefits. Why are more people turning to them? With no physical footprint to support, neobanks have lower costs and can oftentimes offer lower interest rates and lower fees. Since their technology must support their customers in every way, they are often seen as having high customer service and an overall streamlined customer experience as well.

Neobank challenges. Since neobanks are built on a technology-only model, if anything disrupts their technology, it could cause major problems. Case in point, Chime had to contend with a power outage in 2019 during which time customers couldn't log in to their accounts. The cybersecurity of neobanks needs to be stellar since any type of cyberattack could shut down operations quickly and cause big problems.

Their challenges aren't only with technology though. If they aren't able to find a federally or state-chartered FI partner, they won't have deposit insurance. This could be a major hindrance in expanding their customer base and it would likely stunt their rapid growth. Varo is the only neobank that has a bank charter, approved in February 2020 by the FDIC.

While no one knows the future of these rising neobanks, their current popularity indicates that they will be around for a while. They seem to fit certain customer needs. With a bank partnership, they can provide even more with secured deposits as well as lower fees and an exceptional customer experience. While community financial institutions pride themselves on their ability to offer a variety of services and good customer service, you should keep your eye on the rise of neobanks.

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ECONOMY & RATES

Rates As Of: 06/15/2021 05:17AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	0.03	0.02	-0.06
6M	0.05	0.02	-0.04
1Y	0.06	0.01	-0.05
2Y	0.17	0.02	0.04
5Y	0.79	-0.01	0.43
10Y	1.50	-0.10	0.58
30Y	2.19	-0.09	0.55
FF Market	FF Disc	IOER (Interest on Excess Reserves)	
0.06	0.25	0.00	
SOFR	Prime	OBFR (Overnight Bank Funding Rate)	
0.01	3.25	0.04	

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