



How CFIs Can Effectively Compete Against Neobanks

► competition neobanks

Summary: Nimble neobanks have an edge in the world of digital banking. But CFIs have advantages in the real world of finance, stemming from their traditional, brick-and-mortar businesses. Those traditions can help level the playing field.

In the sci-fi cult classic movie “The Matrix,” high-tech swashbuckler Neo saves the world. Neo has developed a following so devoted that some fans even name their kids after him. [Neo was the 980th most popular baby name](#) in 2021.

Neo is also a popular term in finance. Digital banks, often referred to as [neobanks](#), are growing fast and winning over consumers and small business owners. Nobody’s naming their kids “Neobank” yet, but their rapid rise as an alternative to traditional banks has CFIs understandably concerned about direct competition from these high-tech financial innovators.

The Neobank Advantage

Neobanks provide financial services through digital channels in a way that appeals to consumers and small business owners. They have proven particularly adept at mobile solutions. Since they aren’t true banks and are not subject to the same strict federal regulations, they have certain advantages, such as their ability to be freer to innovate and adapt to change. They are classic disrupters of an old-line industry, and because they have moved aggressively into small business loans and services, their growth presents a unique challenge to CFIs, which specialize in servicing small businesses.

Of course, CFIs aren’t idly standing by while neobanks grow. CFIs are upping their digital games as well.

CFI Advantages Over Neobanks

CFIs have an opportunity to one-up the digital competition by [promoting CFI services and products that a digital bank doesn’t have](#). To name a few:

1. **Branches.** You can’t walk into a digital bank and meet face-to-face with a banker. Customers still like the idea of a physical presence and still prefer using branches to open checking accounts or take out mortgages. For instance, Deloitte’s global digital banking survey uncovered that [58% and 65% of US customers prefer branches when it came to checking accounts and mortgages](#), respectively. A CFI that keeps its branches up to date and staffed with capable front-line employees should have an edge, particularly if it also has a solid digital presence.
2. **Community connections.** Neobanks are located everywhere and nowhere. With no physical presence, they lack the ability to establish real community connections. Community connectedness is a hallmark of CFIs and could be leveraged to effective use. [Fostering and nurturing community support](#) can play a significant role in giving a CFI an advantage over a neobank.
3. **Small business support.** Clearly, neobanks can be quite adept at digital loan applications for small businesses through mobile apps. CFIs can also provide digital and mobile solutions — and they can go one step further. CFIs can provide personal assistance and advice to small businesses through dedicated

relationship managers. A CFI can be a more effective partner to a small business by helping a small business sort out its individual financial needs and concerns. CFIs should play up the fact that they offer long-term local support to small business customers. That is something that provides real added value to small business owners.

4. **Rewards.** When competing against a neobank, check their customer rewards programs. Many don't offer rewards. A strong reward program can be another extra that CFIs can offer to entice customers.

Staying True to CFI Principles

What all this suggests is that CFIs have inherent advantages that digital banks have trouble matching. CFIs would do well to press the advantages they already have as a result of their local community presence. Like Neo in "The Matrix," CFIs might be able to prevail over a seemingly powerful adversary — and they can do it just by being themselves.

NEW PODCAST EPISODE: INCREASING CUSTOMER LOYALTY

It's always a good time to focus on keeping your customers happy and loyal. [Tune in to this new episode](#) for tips from the experts at Customer Communication Group as they discuss the do's and don'ts of increasing customer loyalty.

ECONOMY & RATES

Rates As Of: 01/10/2023 09:50AM (GMT-0800)

Treasury	Yields	MTD Chg	YTD Chg
3M	4.70	0.28	0.28
6M	4.83	0.07	0.07
1Y	4.74	0.03	0.03
2Y	4.26	-0.17	-0.17
5Y	3.74	-0.26	-0.26
10Y	3.63	-0.25	-0.25
30Y	3.75	-0.21	-0.21
FF Market	FF Disc		IORB
4.33	4.50		4.40
SOFR	Prime		OBFR
4.31	7.50		4.32

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