



Taking a Page from the Neobanks To Remain Competitive

customer service digital banking neobanks

Summary: As more and more people turn to neobanks and fintechs, remaining competitive might require taking a page from their playbooks to provide customers with a more comprehensive and personalized experience. We discuss the growth of neobanks and which of their popular capabilities you can adopt to attract the same customers.

In the 2015 movie “The Intern,” Robert De Niro’s character, Ben, [is a retired man who reenters the workforce](#), but this time from the opposite side of the experience spectrum — an internship. Despite her initial wariness of having an older intern, Ben’s manager, an overwhelmed CEO played by Anne Hathaway, comes to see the value in her senior intern’s experience and wisdom. The movie essentially turns the traditional mentorship on its head, showing that even a CEO might have plenty to learn from a newcomer.

Although neobanks are newcomers in the financial industry, that doesn’t mean that they don’t have anything to teach traditional financial institutions. When it comes to providing a superior customer service experience to small businesses and younger customers, community financial institutions (CFIs) would be better served to learn from the examples of nontraditional competitors such as neobanks.

Keeping Up with Neobanks

The popularity of fintechs and neobanks is on the rise, with [47% of all new checking accounts in 2023](#) opened at such institutions, up from 36% in 2020, according to a recent report from Cornerstone Advisors. Meanwhile, the banking industry’s largest players have seen their portion of new account openings decline to 17% during the same period, down from 24%; regional banks have seen their share decline to 21% from 27%. CFIs have remained fairly stable during the same period.

Moving forward, if CFIs want to remain competitive with neobanks and fintechs, they need to combine consumers’ ongoing confidence in their services with the one-stop shopping experience of their newer competitors that appeals strongly to these two customer bases.

Changing Customer Preferences

A recent survey of small businesses found that 90% are looking for a greater number of offerings from their financial institutions — not just a complete slate of both credit and non-credit products and services, but real-time payment offerings, increasingly elaborate mobile banking offerings, reporting capabilities, and personalized product and service offerings tailored to their individual needs.

But while small businesses are looking for more from their financial institutions, they do not have the needs of large businesses and are unable or unwilling to pay extra for such services. For CFIs to hold tight to their existing small business customers and attract new ones, they should strategically court this group.

Here are a few of the things neobanks are doing to attract customers that CFIs should keep in mind when it comes to efforts to attract new small businesses:

- **Target all income groups.** A recent report from Bain & Co. found that although historically it was lower-income customers in underserved communities who took to neobanks and fintechs for their banking needs, a [rising number of people with higher education and income levels](#) have also been gravitating to neobanks. CFIs would be well served to actively target people within this group by improving the offerings they target them with.
- **Upgrade your digital banking with no-code tech.** Neobanks are also on the cutting edge of technology and don't need to support a physical branch, meaning much more of their budget can be dedicated to maintaining an excellent digital experience. The easiest way for traditional financial institutions to compete is [using no-code or low-code digital platforms](#), which require significantly less IT expertise and are easier to make changes to. This will help your CFI be more agile as customers' digital needs change.
- **Streamline your account opening process.** It is important to be aware of any friction within your organization's digital sales process and to address any problems. Bain & Co. found that any difficulties in the account opening process substantially increase the likelihood of a customer switching to a competitor. Many neobanks tout [how quickly customers can set up accounts](#). Chime, a very popular neobank, enables customers to open accounts on their website within minutes, requiring just a name, date of birth, address, and social security number. Likewise, neobank Varo promises customers that they can open accounts in under five minutes. Revolut, another neobank, offers a similar experience and can even verify customer ID with selfies.
- **Tailor the experience to the customer.** The more personalization that financial services provide customers, the greater customer satisfaction that people report. It is important for CFIs to continuously make every effort to engage customers in the right way at the right time. Because neobanks use all digital online platforms, there's much easier access to customer data that can then be [used to personalize the customer experience](#). Neobank customers can often set specific savings goals, get reminders and alerts about payments, and elect different types of rewards for purchases.

CFIs currently enjoy the confidence that most US customers still have in traditional financial institutions and have managed to keep new account openings fairly consistent. But as neobanks attract a rising number of customers, particularly small businesses, remaining competitive will require taking a page from the book of these new competitors by providing an enhanced digital experience and more personalized offerings.

BUILDING THE FEDNOW SERVICE WITH SHEILA NOLL

As the FedNow Service gains momentum, we sat down with Sheila Noll, a payments expert and PCBB's COO, to understand how the service came to be, and get advice for CFIs regarding faster payments implementation.

[Download PCBB's Industry Insights paper](#) to learn the details.

ECONOMY & RATES

Rates As Of: 12/20/2023 06:31AM (GMT-0800)

Treasury	Yields	MTD Chg	YTD Chg
3M	5.43	-0.02	1.01
6M	5.35	-0.03	0.59
1Y	4.88	-0.25	0.18
2Y	4.37	-0.31	-0.06
5Y	3.90	-0.37	-0.11
10Y	3.90	-0.43	0.02
30Y	4.02	-0.48	0.06

FF Market	FF Disc	IORR
5.33	5.50	5.40
SOFR	Prime	QBER
5.31	8.50	5.32

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