

The rise of Neobanks

The pandemic accelerated the growth of Neobanks and digital offerings. By providing enhanced convenience and being cost-effective they are competing strongly with the traditional banks

WORDS BY

Robert HazbounGROUP CEO AND MANAGING
DIRECTOR, ICS FINANCIAL SYSTEMS

As the digital movement takes the globe by storm and the influence of Gen Z grows stronger, there has been a fundamental shift in the preferences and choices of the average banking customer. Customers are prioritising convenience and untethered access to their essential services at all times and that is becoming a requirement rather than a choice. While the global banking industry was moving steadily towards digitalisation, the Covid-19 pandemic triggered a reality-shifting chain of events that catapulted developing technologies to the very top of the priority list for consideration.

It also compelled banks and financial institutions to invest heavily in developing reliable digital channels to retain and expand their customer base. Digital banks, or Neobanks, as they are also known, have several benefits over traditional banks, including full user-centricity, not to mention convenience, agility, and further-reaching financial inclusion, all at considerably lower costs than traditional banks.

The Covid-19 pandemic necessitated disruptive growth in the digital banking landscape, accelerating trends towards increased digital adoption, remote banking, contactless payments, and fintech innovation. Lockdowns and social distancing measures prompted a surge in demand for convenient and frictionless financial services, leading to the rapid adoption of digital banking solutions.

Financial institutions, including Neobanks, responded by enhancing their digital capabilities, focusing on digital onboarding, and collaborating with fintech companies to meet the evolving needs of consumers in a digital-first environment. This period also witnessed a heightened emphasis on security measures and an increased focus on financial wellness tools.

The changes brought about by the pandemic in the digital banking sector are expected to have a lasting impact. The shift towards digital channels is likely to endure, with

consumers continuing to prioritise online and mobile banking for its convenience and efficiency. Remote work trends are expected to influence how individuals approach banking, fostering a preference for flexible, remote-friendly solutions.

Ongoing collaboration between traditional banks and banking technology providers is anticipated, driving sustained innovation in digital financial services. The emphasis on security, financial wellness, and broader digital transformation efforts within the financial industry are likely to persist, making digital banking a central and enduring aspect of the post-pandemic financial landscape.

What Neobanks can offer

Innovation is the hallmark of Neobanks, and there are new facets emerging every day, including cutting-edge technologies like AI and blockchain that are utilised to significantly improve customer experience and meet the demands of their daily lives. There is no doubt that the benefits of Neobanks far outweigh traditional banking when it comes to convenience, so much so that this is often the decisive factor in choosing one bank over its competition.

Another key appeal of Neobanks is the great reduction in costs to both the bank as well as the customer, featuring low and sometimes even zero fees for some basic services. This is very attractive to the cost-conscious customer and encourages them to browse more of the bank's products and services and benefit from them. Agility is also a profound benefit of Neobanks, allowing for new technologies to easily integrate with the bank's app at a fraction of the cost compared to traditional banks, with minimal service interruption.

The ICS BANKS award-winning digital banking platform is built from the ground up on an open backend structure and a rich catalogue of APIs to ensure it stays up to date with the latest technologies available, giving our clients the power to vigorously compete in today's quick-paced market. Our powerful backend transactional system allows the bank to extend out-of-the-box retail and corporate products and services allowing them to compete and grow their customer base beyond traditional banks.

Putting customers first

Today's tech-savvy users have higher expectations from their banking providers, taking for granted everything from personalisation and security to cost-effectiveness and accessibility. With the growing trend of personalised banking and catered financial products, consumers are more inclined to go with the bank that best suits their situation and needs. Top of the list for consumers is a user-friendly experience via intuitive mobile apps and online platforms that simplify on-the-go banking transactions.

Another key draw is the transparency of the fee structure: small print is no longer an acceptable practice, and consumers are unwilling to make any commitments unless they know exactly where their money is going. Convenience and accessibility are also crucial, with consumers favouring Neobanks that provide features like mobile cheque depositing, online bill payments, 24/7 customer support, and most importantly, digital onboarding processes. This saves a lot of time – not to mention the excessive paperwork – required to open a bank account, making them the main driver in expanding financial inclusion. Some Neobanks go even further by incorporating social features, fostering a sense of community and shared financial experiences.

Security remains a top priority, with trust often placed in Neobanks that prioritise robust measures like two-factor authentication and advanced encryption. Ultimately, consumers seek assurances of reliability and stability, whilst considering factors such as the Neobank's financial health, regulatory compliance, and history of dependable service. Neobanks that can meet these expectations are poised to attract and retain customers in a competitive market.

Neobanks encounter multifaceted challenges in the financial industry, and ICSFS, as a technology provider, offers tailored solutions to address these issues. ICSFS is a leading provider of modern banking and financial technology powered by a solid, agile, and digital banking platform as part of its DNA. Neobanks can form strategic partnerships with technology providers such as ICSFS to obtain expertise and solutions to navigate complex and evolving regulatory environments, improved security measures, revenue diversification, effective marketing, robust technology infrastructure, and leveraging data analytics technologies to enhance customer experiences.

The pressing need for robust cybersecurity measures is met through ICSFS, which delivers advanced security protocols, encryption methodologies, and regular security audits



to safeguard Neobanks and build trust with customers. Privacy and security are also substantial concerns for Neobanks, with the increasing risk of data breaches and unauthorised access to sensitive information. To mitigate these security challenges, ICSFS has recently obtained the iSMS (Information Security Management System) ISO/IEC 27001 Standard Certification, addressing any possible vulnerabilities through periodic audits and adopting advanced technologies like biometrics for enhanced identity protection in addition to rigorous security protocols aimed at preventing cyber-attacks.

Furthermore, ICSFS supports Neobanks in their global expansion endeavours by developing solutions for cross-border services and compliance with international regulations, facilitating the seamless entry into new markets. In essence, the collaboration between Neobanks and technology providers like ICSFS plays a pivotal role in overcoming the dynamic challenges within the financial landscape. ICSFS is a one-stop-shop for Neobanks not only for its agile and future-proof technology platform, but also by offering a complete array of products and services that encompasses both retail and corporate banking services.

Enriching customer journeys

ICSFS launches innovative products that are constructed on a secured and agile integration on a single platform, such as ICS BANKS. This is a fully integrated end-to-end financial and banking software with many suites that future-proof business and financial activities, through a broad range of features and capabilities, with more agility and flexibility to enrich customers' journey experience.

With the current digitisation storm and fast progress pace, ICSFS offers strong tools not just to make an impact, but also to be the leader. One of ICSFS' strengths lies in its focus on the individual requirements and support for each of its clients. ICSFS offers agile and highly secure universal, digital, and Islamic core banking platforms with a multitude of modules and software products covering the entirety of banking activities from individual and retail banking to corporate, wholesale, agency and commercial banking, microfinance, finance leasing, investment and wealth management solutions. Its flagship banking solution, ICS BANKS, uses the latest industry-approved digital technologies to cover all of the banking business and offers a wide array of digital touchpoints to accommodate the fast-paced life of the banking consumer.

ICS BANKS banking software solution comes built in with a broad range of supporting products including powerful tools such as E-KYC and digital onboarding, blockchain technology, business intelligence, enterprise resource planning, document management system, management information systems, business processes management, payment systems, Islamic and conventional lending and trade finance, RegTech, credit facilities and risk management, investment and treasury, dynamic application and advice builder, in addition to a rich catalogue of open banking with APIs to ensure its flexibility for integration with the majority of available third-party fintech providers as part of its infrastructure, delivering high availability, scalability, low total cost of ownership (TCO), and impressive performance. ICSFS also aids Neobanks in achieving profitability by offering strategies for revenue diversification, minimising in-

come leakage, assistance in expanding product portfolios, and optimising monetisation models. Recognising the reliance on technology, ICSFS offers scalable and secure infrastructure solutions, mitigating risks associated with system outages and cyber threats.

A hybrid future

The future of digital banking is marked by transformative trends and technological advancements. Key directions include the continued integration of advanced technologies, contributing to enhanced automation, personalisation, and security within digital banking processes. Open banking ecosystems are anticipated to foster greater collaboration, allowing seamless sharing of financial data through open banking and promoting innovation.

Personalised and contextual banking experiences, service offerings that are expanded beyond traditional banking, and a focus on comprehensive financial ecosystems are expected to define the landscape. AI is profoundly influencing digital banking across various domains, transforming customer experiences and operational efficiency. In the realm of personalisation, AI leverages customer data to provide highly tailored experiences, offering personalised recommendations, targeted marketing, and customised financial advice.

While the trend towards digital banking is notable, it is unlikely that all banks will transition to a digital-only model in the near future. Factors including the diverse customer preferences, varying regulatory landscapes, and geographic considerations contribute to the continued coexistence of traditional and digital banking. Furthermore, some individuals still value in-person interactions and physical branches, particularly in regions with specific demographic characteristics or limited adoption of digital services. Regulatory frameworks also play a role, with certain jurisdictions mandating the presence of physical branches or setting specific standards for banking services.

Additionally, the diverse banking needs of customers and the challenges associated with a complete digital transition, including technological investments and organisational changes, contribute to the persistence of traditional banking models. Many banks are adopting hybrid approaches, combining digital and physical elements to cater to a broad range of customer preferences and needs. While digital transformation is a key focus for many institutions, the transition to digital-only banking is likely to be a gradual and complex process, varying across regions and institutions. ■