



F R O S T & S U L L I V A N

NEO BANKING: AN UNTAPPED GOLDMINE

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Prepared Exclusively For:

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In the post-pandemic era, the use of digital financing and payment solutions is likely to witness an exponential surge. However, to construct a truly cashless society and comprehend end-users' requirements, the need of the hour is a strategic coalition and a mutually agreed vision that encompasses various entities such as regulatory bodies, technology providers, and financial institutions.

The progression from a cash-based economy to a cashless one is not a drastic process and is largely dependent on several influencing factors, such as meeting consumers' needs and empowering them, existing and futuristic jurisdictional regulations, and market operational standards.

Through innovative digital payment platforms and Neo banking, fintech firms will not only be able to streamline the process but also accelerate the transition to a cashless society.

- Neo banking means digital-only banks without a physical existence; the term “Neo” refers to a new age.
- The advent of COVID-19 has made neo banking a novel solution to contactless banking.
- Through the feature of online presence, neo banks can offer smooth banking and financial services to customers by eliminating much of the waiting period required at traditional banks.

What is driving Neo banking:

1. The operational cost of neo banks is one-third of that of traditional banks.
2. The global transaction value through neo banks reached \$2.45 trillion in 2021, from \$0.82 trillion in 2019, and is expected to increase to \$8.98 trillion in 2027.



Top Three Industries of Focus



Banking & Financial Services

- With the rise of digital banking, the neo banking trend offers numerous benefits to the banking sector in terms of efficient and cost-effective online services.
- Users of neo banks have increased from 55.68 million in 2019 to 145.38 million in 2021.



ICT

- Technology plays a vital role in digitization of banks.
- Service providers can tap opportunities to develop and provide technologies that offer smoother and easier UI with innovative tech, using AI for digital assistants.



Retail

- eCommerce retailers can draw huge benefits from neo banking by collaborating with banking partners and by offering flexible payment options to consumers.
- Retail apps can incorporate direct and easier payment process for customers, which leads to increased purchasing.

Source: DataProt; SwissRe; Frost & Sullivan

Key Drivers

Low
High
|

 Low operational costs and investment over traditional banking

Low
High
|

 Generational influence toward digital banking

Low
High
|

 Ease of use and no or less waiting period for customers

Key Restraints

Low
High
|

 Managing data privacy and security breaches

Low
High
|

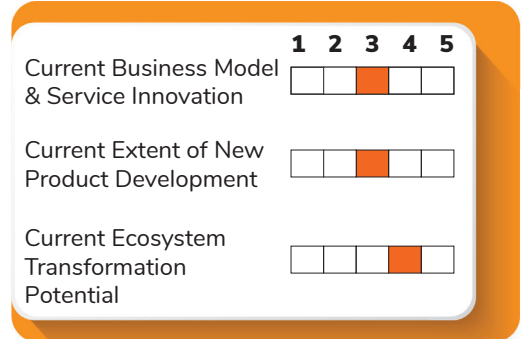
 Low profit margins

Low
High
|

 Low access of digitization in some regions and remote areas

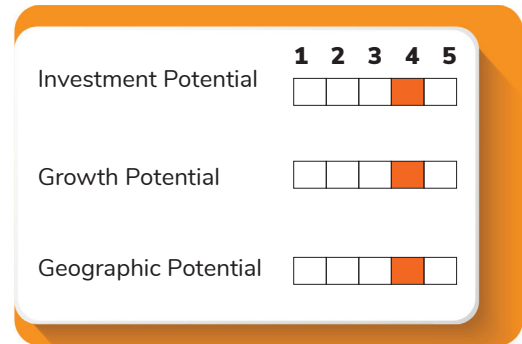
Disruption Potential

The emergence of digital payments is driving the banking sector to adopt an online-only approach. Gen Z and millennials have a high inclination toward mobile banking; hence, banks are leveraging advanced technologies to cater to their requirements. New fintech start-ups are emerging as neo banks while the established ones are planning to restructure their model in the long term to manage profit margins.



Growth Potential

The rise of mobile banking has triggered the growth of neo banks. Banks are investing in automation and witnessing rapid growth when compared to traditional banks by offering instant services and approvals. The United States, the United Kingdom, and France have a high penetration rate with a transaction value of \$1,075 billion, \$562 billion, \$190 billion, respectively, in 2022*. With a CAGR of 50.5% from 2023 to 2025, the Indian market for neo banks is closing the gap.





Representative Use Cases



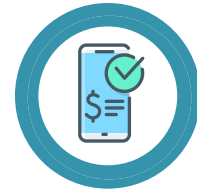
N26

- This is a no bank based out of Germany and serves the United States and a few countries in Europe.
- It offers services related to business as well as personal banking, and for continuous customer support, a chatbot is always available.
- The bank has expanded to cover 25 countries and has about 7 million customers on board.



Atom Bank

- Atom Bank operates in the United Kingdom and serves its customers through an app alone.
- This bank specializes in offering business loans and mortgages; it also offers saving accounts.
- The app is easy to use and known for offering efficient customer support.



Cleo

- By leveraging advanced artificial intelligence technology, Cleo offers personalized banking service to its customers. These include advisory services on fund management, credit score coaching, spending monitoring and so on.
- An AI-powered chatbox is available as a digital assistant linked to the client account.





Top Three Growth Opportunities

01

Hyperpersonalized Neo banking:

- With more and more users coming on board, data collection is carried out on a huge scale. Companies can capitalize on this data. With the help of advanced AI and ML technology companies can gain insight into the specific requirements of customers.
- Companies can offer personalized services by offering bundle services and customized promotional offers.

02

Super Banking Apps

- Banking apps can be diversified to offer non-financial services and expand customer base.
- Neo banks must collaborate with reliable retailers and service providers to include their offerings on their apps.
- This will allow customers to access all services in one app while banks can offer reward points, deals and promo discounts for these offerings.

03

AI-enabled Assistant for Digital Support

- Many customers from the older generation are not comfortable adopting digital banking; here, conversational AI can be used to cater to their needs.
- This will improve customer experience and loyalty through quick redressal and allow banks to strengthen engagement.





Imperative to Act Across Top Three Industries of Impact

Banking & Financial Services

Launch: Many start-ups have initiated the adoption of this business model, even while established banks are in the planning stage.



ICT

Launch: Fintech start-ups are partnering to provide unique customer experience, and the tech sector is improving mobile apps to ensure higher ease of use.



Retail

Test: Retailers are seeking to collaborate with neo banks to offer a smooth payment process.



The call to action for GCC to tap into the Neo banking ‘goldmine’ are:

1

Maintain Data Privacy Boundaries

- Banks need to assure its customers that the level of data privacy is maintained within the customer’s authorized boundaries.
- Customer consent must be taken to utilize their transactional data and banks must demonstrate their intention of how the collected data is creating value.

2

Promote Digital Access

- Neo banks must make an effort to promote digitalized banking in areas where access is low.
- The banks must introduce special offers for women to increase access and expand their network.

3

Leverage Advanced Technology

- To offer digital assistance, banks must make use of advanced AI that can act as a chatbox to serve customer redressals.
- This technology can also be used to gather and curate customer data which can be further monetized by analyzing customer needs.





About Frost & Sullivan

For over six decades, Frost & Sullivan has provided actionable insights to corporations, governments and investors, resulting in a stream of innovative growth opportunities that allow them to maximize their economic potential, navigate emerging Mega Trends and shape a future based on sustainable growth.

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About GITEX Global 2023

GITEX Global, the world's largest tech show, returns to Dubai World Trade Centre from 16-20 October 2023. Under the overarching theme "The year to imagine AI in everything," the event will bring together global tech experts, seasoned investors, world-class leaders, and prominent developers from 176 countries. GITEX Global 2023 will gather over 170,000 trade buyers, 6,000 exhibitors, and 1,400 speakers. Following the record-breaking success of the 42nd edition in 2022, the flagship event will launch three new co-located shows this year: GITEX Impact, Future Urbanism EXPO, and SuperBridge Summit Dubai. Attendees are also going to access the conference agenda and exhibition halls of industry-defining events, such as Ai Everything and Global DevSlam. In 2023, GITEX Global will also inspire the world's largest start-up and investors event, Expand North Star, to grow even further, taking place for the first time from October 15-18, at the iconic Dubai Harbour.

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