

Bankjoy

Whitepaper

Defining the Neo Banking Opportunity



Executive Summary

Forward-thinking community banks and credit unions have likely been hearing about neobanks, and may be wondering if it is an appropriate strategy for their financial institution (FI). This whitepaper provides a high-level overview of the neobanking opportunity to help FIs consider their options.

In particular, we introduce the Bankjoy online banking platform, which enables FIs to target digital-first demographics while maintaining their existing core system. Bankjoy technology could be a great fit for institutions looking to optimize their digital customer or member experience to drive growth and increase competitive advantage.

The Bankjoy team is happy to discuss the opportunity in detail, and provide a demo of the platform.

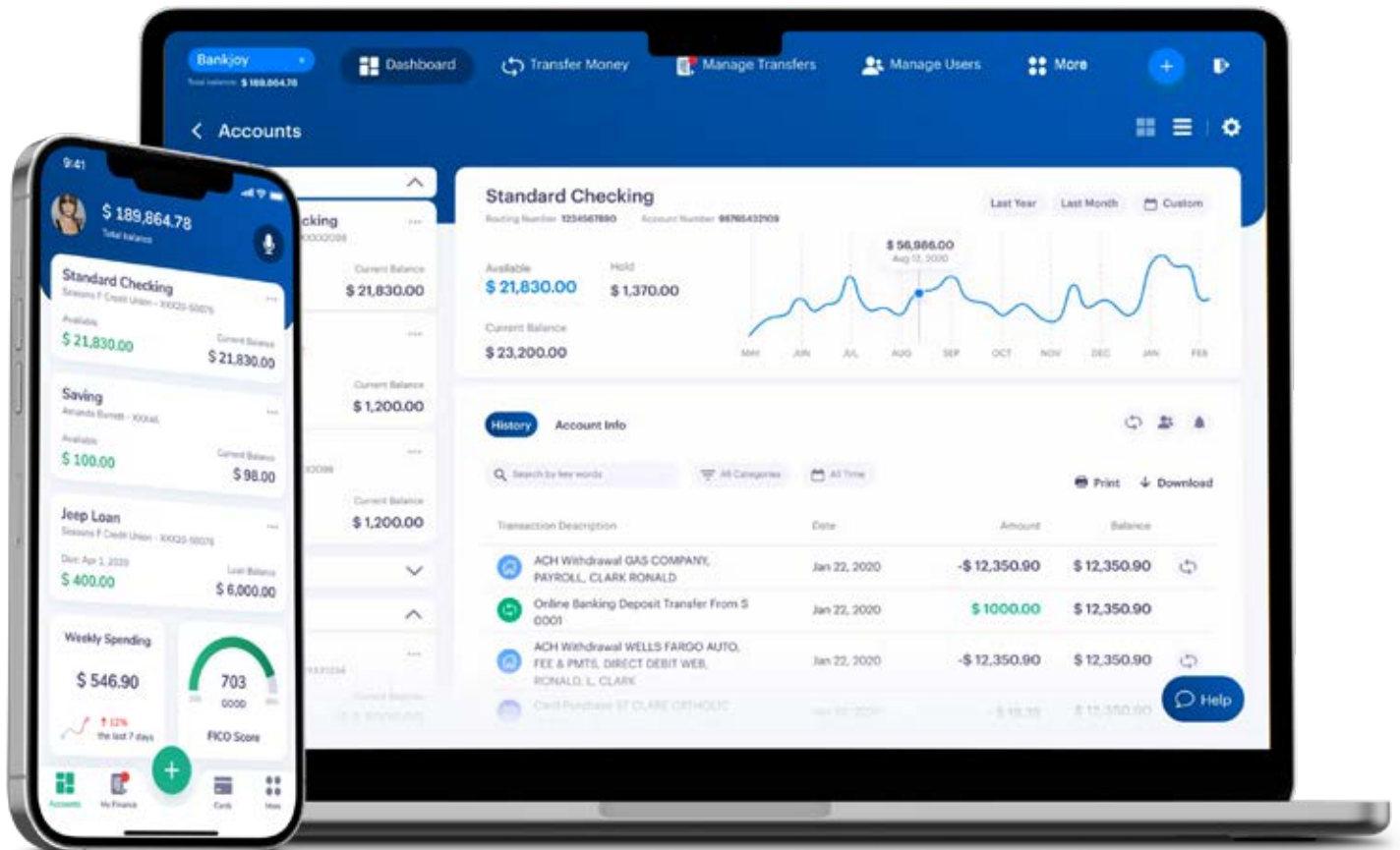


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What is a neobank and why is it important?

Neobanks and digital-only banks are sometimes considered the same thing, but there are differences. Both offer digital banking services accessible via web and mobile devices, often with simple interfaces, automated processes, and better access to real-time data.

However, by definition, “a digital bank is the online arm of a traditional bank, whereas a neobank exists independently of a bank.”([source](#)) And unlike traditional banks, neobanks do not have bank branches and are not typically licensed as banks.

The autonomy of neobanks is an important distinction. It provides new opportunities for FIs to more quickly reach new markets, and adopt new ways of doing business – without upsetting their core operational processes.

Many credit unions and smaller banks are typically all about serving their communities. But they also face an urgent need to attract and retain younger, digital-native audiences like millennials and Gen-Z. As an example, the average age of credit union members is 53 ([source](#)). “To build a member base that will grow over the next several years and decades, attracting members under age 45 is the goal for most credit union marketers.”([source](#))

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What is a neobank and why is it important? (cont)

Partnering with a neobank enables community and regional FIs to rapidly roll out retail and commercial digital banking services built on the latest technologies. Here is a quick snapshot for comparison:

Characteristic	Traditional Bank	Neobank
Service delivery	Physical branch	Website and mobile
Longevity	100 years or more	10 years or less
Client relationship	In-person, high-touch	Virtual, online, seamless
Support	In-person, phone, online	Online, phone
Fees	High, complex	Low, transparent
Regulatory issues	Full banking compliance	No bank charter, limited compliance
Account opening	Tedious, lengthy	Quick and simple
Services	Many services for masses	Targeted services supporting niches

Typically, lending institutions can only work with full bank accreditation, while neobanks can have both payment and financial accreditation, depending on the services provided.

Market Trends

The neobanking market continues to gain traction as many traditional FIs are unable to meet the rapidly evolving digital demands of retail and business customers. In 2023, neobank transaction value is expected to reach \$4.74 trillion, with a customer base of nearly 377 million by 2027. ([source](#)).

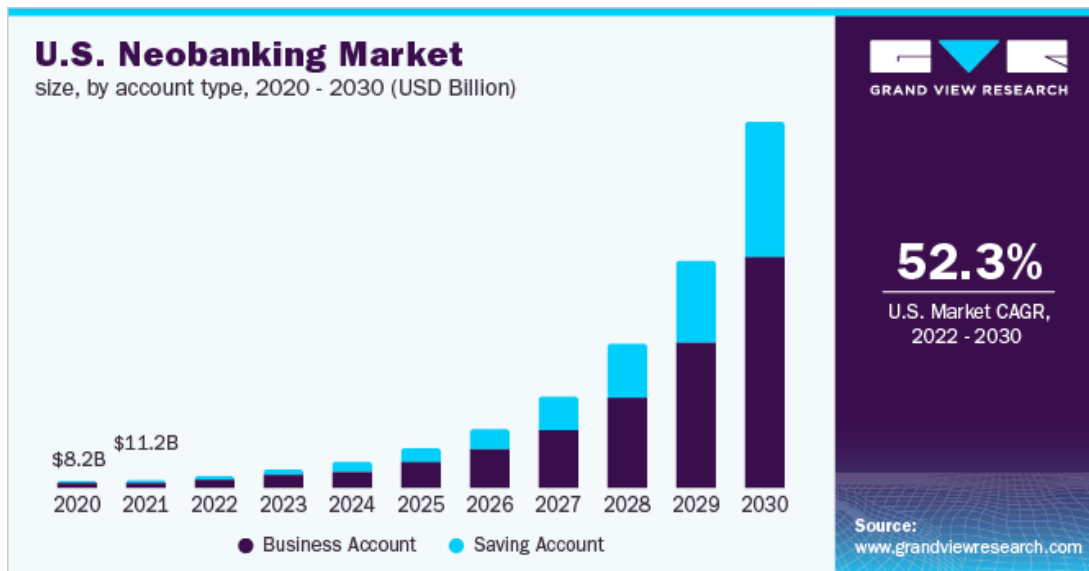
Partnerships between FIs and non-FIs are occurring in greater numbers. Often the goal is to accelerate market growth by offering a better experience to targeted customers.

For instance, in April 2021, Google Pay co-creators announced the launch of Fi, a neobank, in partnership with the Federal Bank to provide an instant savings account with debit cards for salaried millennials. Technological advancements and the increase in internet penetration globally allow financial service providers to offer new digital services to customers. Moreover, the growth in digital wallets has also been driving the demand for online banking platforms.

Credit unions and community banks are often unable to add a next-gen digital experience with their existing core, and struggle to compete and stay relevant. To accelerate market growth by offering a better digital experience to targeted customers, FIs are increasingly assessing neobanks.

Adopting a neobank platform can enable FIs to be more competitive. For instance, they could offer the new digital banking experience under a new name or to address new markets. And they can gain the advantages of having a new crop of customers on the new platform. For example, younger generations may be seeking student loans or mortgages, and increasing deposits as they inherit from boomer parents.

The market is growing rapidly as per the chart below:



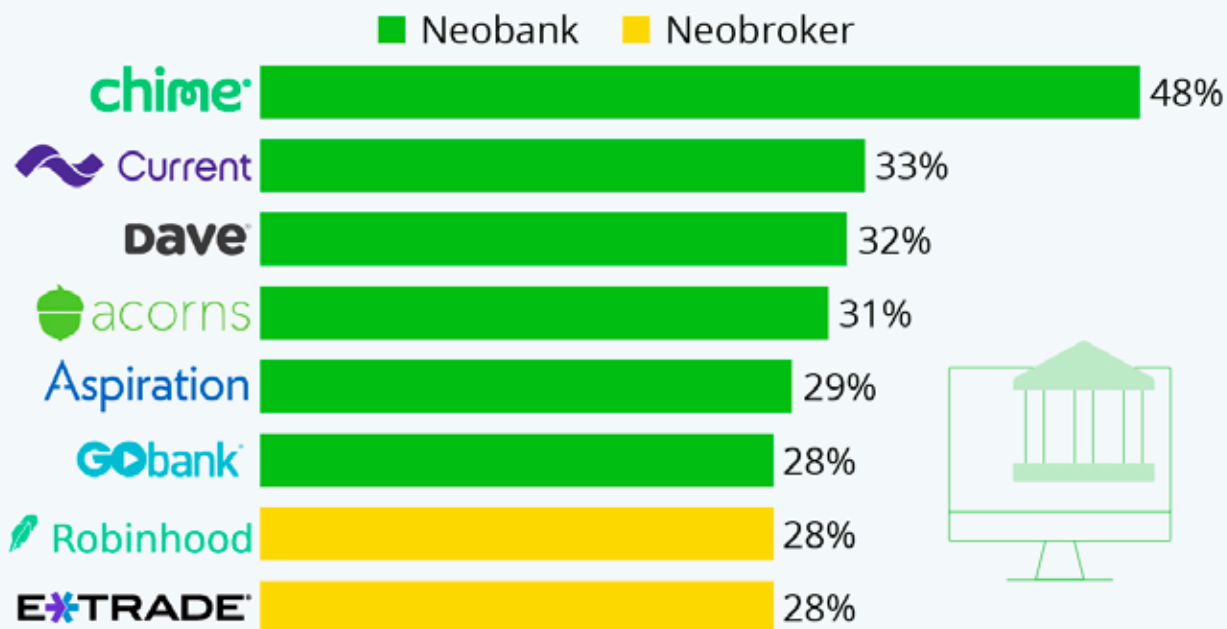
Source: [Grand View Research](#)

Some of the larger players in the market

Below is a look at the adoption rates among some of the leading neobanks and neobrokerages in the US. These organizations have made a name of themselves as independents. But the neobank market is also rich with smaller innovators that provide a robust, flexible platform to help smaller FIs accelerate the path to growth.

Americans Are Banking on Chime

Share of U.S. respondents who like the following neobrokers/neobanks



1,241 respondents (18 - 64 y/o) in the United States surveyed online
March 18 to March 28, 2022

Source: Statista Global Consumer Survey



statista

Difference in customers in digital-only vs neobanks

Digital-only banks, which typically provide services as an extension of an existing traditional bank, tend to have higher adoption rates. Understandably, larger banks have a more prominent, known brand, and may have a more powerful marketing engine to attract and keep customers.

But smaller institutions, especially community-friendly credit unions, have an advantage. Younger generations are very focused on sustainability, and studies show that many would like to support local financial providers – but those audiences also want banking services that fit into their digital lifestyle.

DIFFERENCES BETWEEN DIGITAL-ONLY BANK AND NEOBANK CUSTOMER PROFILES

Demographic profile	Digital-only bank	Neobank
Male	41%	33%
Age 40 Plus	57%	54%
4-Year College Degree Plus	52%	28%
Household Income \$100K Plus	27%	10%
Financially Healthy ¹	44%	27%

Banking profile	Digital-only bank	Neobank
Avg. number of accounts held with the bank	2.01	1.63
Total deposit at bank less than \$1000	32%	73%
% of deposit at bank 10% or less	26%	56%

¹ The Healthy customer has found balance between covering immediate financial needs and ensuring their future finances are secure, leaving them with a solid sense of overall financial security.

Neobank advantages and opportunities



ARTIFICIAL INTELLIGENCE (AI) AND MACHINE LEARNING (ML)

While many traditional FIs are exploring AI/ML, usage and capabilities tend to be limited. In many cases, neobank platforms capture data from transactions, and leverage AI/ML analytics to make that data actionable. With deeper customer insights, FIs can find and fix pain points, and better understand different segments to improve customer experience, targeted marketing and more.



API INTEGRATION FLEXIBILITY

Neobank platforms are built on the latest technologies, and many use an open architecture that makes it significantly easier to update or add capabilities using APIs. It gives FIs more agility to adapt quickly to changing market demands and new consumer expectations.



HYPER PERSONALIZATION

Using AI/ML, neobanks are better positioned to take advantage of vast amounts of transaction data to personalize digital experiences and promotional offerings. Personalization is increasingly critical for FIs to compete. 72% of consumers rated being able to personalize their banking relationship as “highly important,” [according to one study](#).



DIGITALLY TARGETING PROSPECTIVE CUSTOMERS

Many neobanks were founded with a mission to support specific demographic segments, such as LGBTQ, African American communities, gig workers, and others. Some neobanks extend beyond banking services to support financial wellness. Dave, for example, has created a feature called ‘Side Hustle’ that helps customers find jobs. Jassby offers financial literacy programs for kids, and Winden offers banking services tailored to startup entrepreneurs. For many FIs, partnering with a neobank can position them to increase their footprint by offering new products to niche markets.



CREATING PERSONAL FINANCIAL SERVICES

Neobanks often include personal financial information systems (PFIs) that help consumers manage their money more effectively. For example, automatically paying off credit card balances to avoid the interest charges. Supporting financial wellness is becoming a critical differentiator for FIs, particularly in a volatile economy with high inflation and rising interest rates. Partnering with a neobank may make it easier for FIs to quickly meet consumer demand.

Neobanking introduces new product opportunities

RETAIL PRODUCT OPPORTUNITIES:

Buy now, pay later (BNPL) as embedded financing. Neobanks enable FIs to easily embed BNPL services into their digital experience. And now is the time to tap into this growing market. In 2022, BNPL payment volumes increased more than 77% over 2021, and are expected to reach a market size of nearly \$95 billion by the end of 2023. ([source](#))

Digital and hybrid investments. Offering market-leading, individualized digital investment services resonates with digital natives. With a clearly articulated value proposition tailored to different segments, FIs can improve acquisition and retention with profitable audiences.

Cryptocurrencies. Despite the recent volatility of crypto, these high-margin products are still attractive to many consumers and are gaining attention across all types of financial services providers.

Digital mortgages. Although digital mortgages are almost identical to traditional mortgages, a digital mortgage uses technology to engage with borrowers at every stage of the lending process no matter where they are. This reduces costs, eliminates manual processes, and streamlines the mortgage funding operation.

COMMERCIAL PRODUCT OPPORTUNITIES:

Credit management services. The reviewing, analyzing and setting the terms of requests for credit for a business is critical in commercial finance and fits nicely into commercial neobanks' offerings.

Asset management services. Helping commercial clients manage money likely won't be a key concern for neobanking targets. Over time, however, such opportunities will grow.

Bulk payment transfers. Businesses are often required to make a high volume of debit payments for managing payables with vendors, suppliers and company payroll. Basic business banking services are table-stakes for commercial neobanks.

There is not yet a place where small businesses flock to get deposit, payment, and financing needs with the possible exception of Stripe. Brex was probably the closest, but it recently abandoned the SMB market to focus on larger enterprises.

Traditional banks are starting neobanks



Increased competitiveness through digital niche targeting

The neobank movement goes beyond bringing a digital user experience to consumer banking. Now the emphasis is on serving market niches, such as creators (artists, writers, etc.) ethnic communities, and new geographic markets.

With carefully designed, highly targeted strategies, FIs partnering with neobanks can position a portion of the business exclusively for key demographics. This approach can strengthen the overall brand and increase growth potential.

Incubators for new opportunities

Some FI-originated neobanks represent incubators for new ideas and innovations. As an example, Santander Bank's Openbank is being used to launch a BNPL offering in Germany.

Easy to launch

The basic technology needed to launch a neobank is no longer an uphill climb. The financial industry is rapidly approaching a plug-and-play solution for starting a new neobank, which eliminates the need for massive and time-intensive in-house development projects.

Typically bank-originated neobanks start with a blend of bankers from the parent organization as well as outsiders who bring complementary skills to the new effort.

Challenges facing neobanking projects

LACK OF FOCUS ON THE TARGET AUDIENCE

For FIs looking to launch a neobank, if the main audience is digital natives aged 18 to 40, then the FI will need considerable focus on that demographic. If targeting local commercial clients such as developers, investors, and real estate brokers, FIs will need to offer banking services that cater to their specific business needs. A lack of focus or spreading it too wide may diminish the likelihood of success.

POOR ANALYSIS OF THE MARKET AND COMPETITORS

To more effectively create a neobank that meets the needs of target customers, FIs need to conduct a detailed analysis of the market and competitors. It's important to look at the market landscape, determine what target customers need, and shape offerings to fill gaps that improve competitive advantage.

POOR USER EXPERIENCE

A common mistake when developing a neobank is offering a poor user experience. Creating an intuitive, user experience is critical; without it your target will not engage with your products and services.

NOT CREATING A LIGHT, MVP

Leverage market analysis to create a light, highly-targeted service that resonates with prospective users. By creating a "trial" version of the product, FIs can test it quickly, understand what should be changed, and iterate until the offering hits the mark.

PARTNERING WITH THE APPROPRIATE FINTECH

Many FIs have found that using the same people who run the institution produces a neobank that looks similar to the parent. Working with a fintech team that built the neobank technology can help an FI deliver a more distinctive, digital-first offering.

Often, career bankers can't spot the pain points of banking as readily as industry outsiders. They're too meshed in the traditional bank. However, some traditional expertise can help when it's complemented with the appropriate expertise needed to stand up a neobank.

Neobanks launched by a bank have the institutional lending experience and understanding to lean on and the charter or license permitting them to be a lender, typically with the advantage of raising relatively cheap deposits.

As a result of these advantages, neobanks with FI lineage often reach breakeven faster than fintech neobanks. However, smaller FIs must know precisely what they are trying to achieve with a neobank strategy and who they are trying to serve.

How to grow a neobank

FIs launching a neobank will need to create a complete growth marketing plan. Here are a few key considerations:

B2B VS B2C

Neobanks have found success targeting both B2B and B2C opportunities. The marketing strategies and tactics used to pursue retail businesses compared vs digital-only millennial targets are dramatically different. B2B vs B2C branding, naming, creation of the buyer's journey, as well as event planning all require different tactics and strategies.

BRANDING

Defining the value proposition and determining how the neobank will deliver on the brand promise is key. Is the brand modern, and will the service name have meaning to target audiences? Are brand elements consistent across all customer engagement touchpoints? Will the offering and messaging resonate with key audiences? Branding is much more than logos and colors. It takes a thoughtful brand architecture to position new offerings to make it believable and compelling in ways that help create lasting engagement.

CUSTOMER ACQUISITION

Aligning the buyer's journey with your acquisition plan is critical. Understanding where your message will resonate and tying it to your value proposition is key. You'll need to understand how to convey your 'authentic self' and continually remind your audience where, why and how to engage with your brand.

Once done, you can begin to create strategies that align online searches with engaging content strategies that boost brand awareness and education. This content might include simple Google Ads, white papers, podcasts, infographics or any other content that engages your audience and successfully begins the buyer journey towards their product acquisition.

CUSTOMER LIFETIME VALUE

You'll also need to define KPIs and metrics that will help you plan your activities and benchmark your success. Understanding how much you're willing to spend to support new product acquisition is key. As you can see from the chart below, you'll need to consider your acquisition channels and how much you should spend based, in part, on your customer acquisition goals. Are you aiming to drive free product usage, entice customers to start a trial, or onboard new clients? All are solid options worth considering and quantifying.



How to grow your neobank (cont)

COSTS OF CUSTOMER ACQUISITION BY PRODUCT

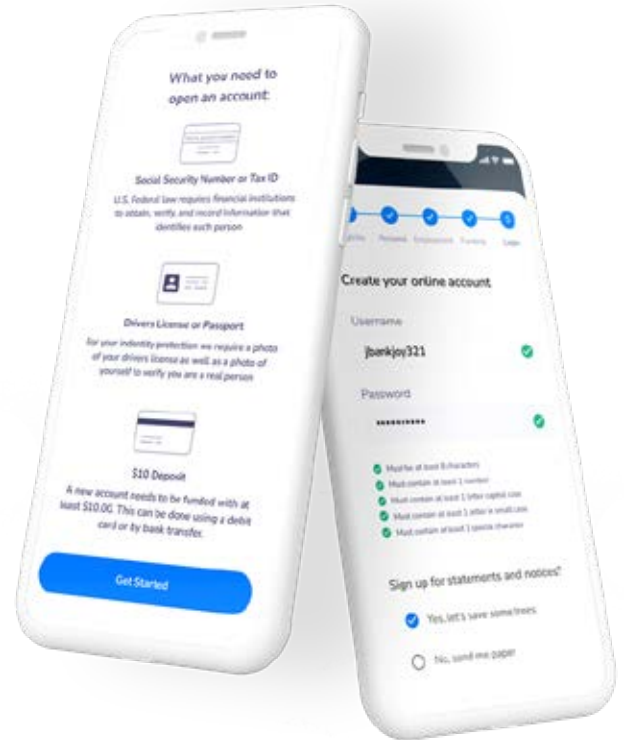
Product	Approximate Acquisition Cost
Personal loan from a digital lender	\$300
Credit card	\$200
Checking account (low)	\$600
Checking account (high)	\$2000
Investment account (low)	\$300
Investment account (high)	\$1000

Accelerating digital success with Bankjoy

The [Bankjoy](#) platform is built to help FIs deliver optimal digital banking experiences. It includes mobile and online banking, online account opening, online loan applications, statements and Conversational AI. Bankjoy's platform is an end-to-end white label service that enables FIs to meet the evolving financial needs of consumers and businesses.

Bankjoy's services are designed to mirror the modern design and simplicity so popular in the Apple ecosystem. The many services that clients regularly use are seamlessly integrated to support the demands of the savvy digital consumer.

We're happy to demonstrate the platform to your financial institution.



A SHORTLIST OF BANKJOY FEATURES INCLUDES:

- Consumer Internet Banking, Mobile Banking, and API
- Business Internet Banking, Mobile Banking
- Consumer Online Account Opening (OAO)
- Consumer Online Loan Application (OLA)
- "Joy" Conversational AI*
- Transfer Functionality (A2A, P2P, ACH, Wire)
- e-Statement Monthly Cost
- Secure ID Verification (Used for OAO verification)

The image features a vibrant blue and purple gradient background. In the center, the word "Bankjoy" is written in a bold, white, sans-serif font. The background is decorated with abstract geometric shapes, including a large light blue circle in the top left, a purple circle in the bottom right, and thin white lines forming partial rectangles and curves. The overall aesthetic is modern and clean.

Bankjoy