

# Neobanks

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## In News

To make banking simple, convenient and meaningful, some **financial technology (fintech) startups** are launching neo-banks for retail customers in India. These fintechs are **partnering with traditional banks and offering better solutions by using technology such as artificial intelligence (AI) and machine learning (ML).**

## Features of Neobanks

- Since the Reserve Bank of India (RBI) tightly regulates banking licenses, neo-banks are **providing services built on the offerings of a traditional bank.**
- For traditional banks, it is **difficult to change their legacy technology for which they have already spent a lot.** Neo-banks, on the other hand, are **small and nimble.** They can use the latest technology and offer solutions to customers' banking problems.
- Globally, neo-banks offer **100% digital banking services.** The growth is driven by their **low-cost model with no or low monthly fees on banking services.**
- Digital banks are often the online-only subsidiary of an established and regulated entity. Neo-banks, on the other hand, exist solely online, **without any physical branches, in partnership with traditional banks.**
- Neo-banks, typically, **identify a problem area in banking and offer solutions.** In India, they are offering solutions for expense management, investments, forex needs and so on.
- Examples:
  - . Niyo started its services for **customers using their debit cards abroad**, to promote it as an **alternative to forex cards.** It also provided **better control of the card** through an app. A

user could activate and deactivate the card, check the prevailing exchange rates, set limits, and so on.

. Finin uses **AI and ML to analyze the spends of customers and offers to help them have more control on their finances.** It generates reports with insights on their spending and saving behaviour.

- All the transactions done on their platforms involve the partner banks. The debit card or the savings account that these neo-banks offer belong to the partner banks, which are governed by RBI.
- While these entities may be calling themselves 'neo-banks', they are **not allowed to offer any of the key services that a bank provides such as deposits, interest on deposits or loans. They are also not regulated by the Reserve Bank of India.**