


Chapter 12


Fintech–Driven Disruption: The Transformative Impact of Neobanks on Traditional Banking Systems

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ABSTRACT

Financial inclusion drives economic growth by providing essential financial services to underserved populations. Neobanks, as digital-first financial institutions, play an important part in the effort to offer low-cost and accessible banking services, filling gaps in traditional banking. Neobanks rely on AI, blockchain, and cloud computing to further support financial inclusion as well as cost-efficiency. This study engages the transformative potential of neobanks for traditional service providers by looking at how neobanks will provide operational models, offer technological innovation to push for operational efficiency, and offer product service alternatives to regulatory structures. This study relies on both a literature review and comparative analysis across regions to identify trends and challenges, including regulatory issues, security risks, and a lack of consumer trust in financial institutions more broadly. The results of the study indicate the need for proactive frameworks for regulation, enhanced cybersecurity, and trust to achieve sustainable avenues for growth.

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INTRODUCTION

The evolution of Fintech has revolutionized the financial sector by introducing innovative technologies which aim at enhancement of the efficiency of banking system, security and customer experience. From digital payments and artificially driven financial advice to blockchain and automated lending, fintech has redefined the existence of the financial sector and delivery of the financial services. In particular, it acts as a visible indicator of the challenge posed to traditional banking and access to finance that it represents (Sadiku et al., 2022). The growing impact of Fintech is being recognized by the traditional banks that are collaborating with fintech firms to modernize their services. This digital banking revolution has reshaped financial services and raised the stakes for unequal access to finance for disadvantaged masses (Kalantaryan & McMahan, 2021). Neobanks on the other hand, have emerged as a Digi-first alternative to leverage fintech solutions to operate without physical branches. While traditional banks have always operated within the physical world, Neobanks chose to establish themselves in digital operations by utilizing artificial intelligence, blockchain, and machine learning technology, offering a smooth and efficient banking experience with the consumer in mind. Financial inclusion has remained a relevant challenge in many economies, with millions of people who lack access to basic banking services. If traditional banking institutions have been hindered by high operational costs and regulatory obstacles in their effort to replace this gap, neobanks, by contrast, radically transformed the business by doing away with physical branches and mobile-first banking experiences that line up with the needs of digital customers (Kosse & Vermeulen, 2014). Through providing low-cost, easy-to-use financial services, neobanks have become a good alternative to traditional banking and promotion of broader financial inclusion (Shanti et. al, 2024).

As per the reports of World Bank (2019) the rise of neobanks is driven by consumers' demand for transparency, flexibility and technology driven financial services. After 2008 financial crisis, the trust of consumers in traditional banking institutions started declining hence leading to creation of an opportunity of digital - first financial service providers to step in and bridge the gap between customers and banks.

This transition has been further accelerated by regulatory developments such as the introduction of open banking frameworks, which allow third-party financial service providers access to consumer banking data with user's approval, thus creating more competition and innovation in the banking sector (Danisman et al., 2020).

One of the major defining features of neobanks is the use of AI-driven analytics to provide personalized banking solutions. Machine-learning algorithms can assess creditworthiness, automate fraud detection, and deliver personalized advice to users based on vast data sets (Kelkar (2024). Also, blockchain technology integration has

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