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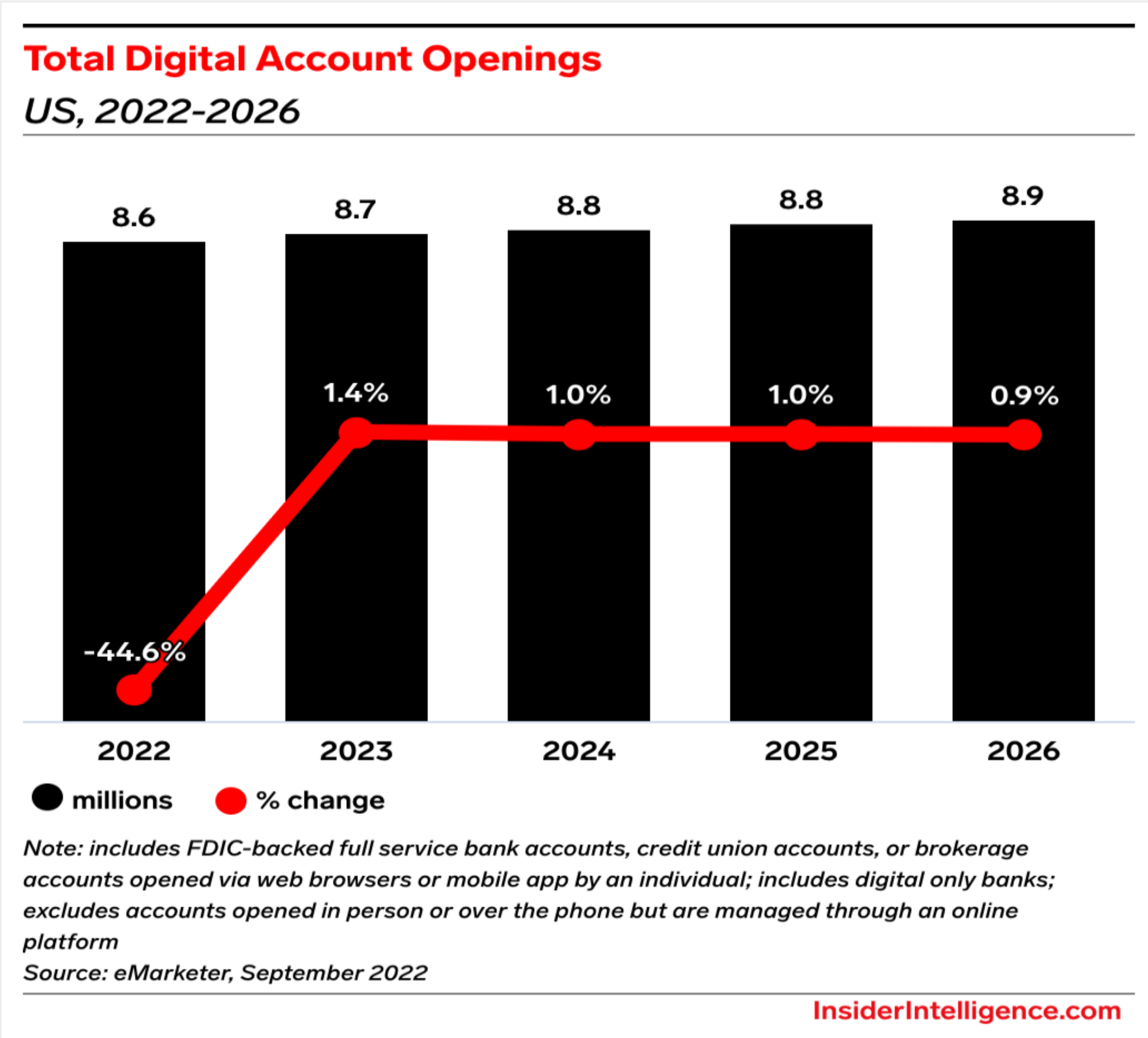
Digital account openings in the US tumble as neobanks continue to stumble

Article

The outlook: **Digital account openings in the US will plummet 44.6% in 2022**, driven by neobanks' ongoing struggles, according to an Insider Intelligence forecast.



Neobanks' troubles are catching up to them: According to our forecast, the drop in total digital account openings for the year is **largely due to a 62% dip in neobank account openings.** But just a few months ago, these banks were still proliferating. How did we end up here?

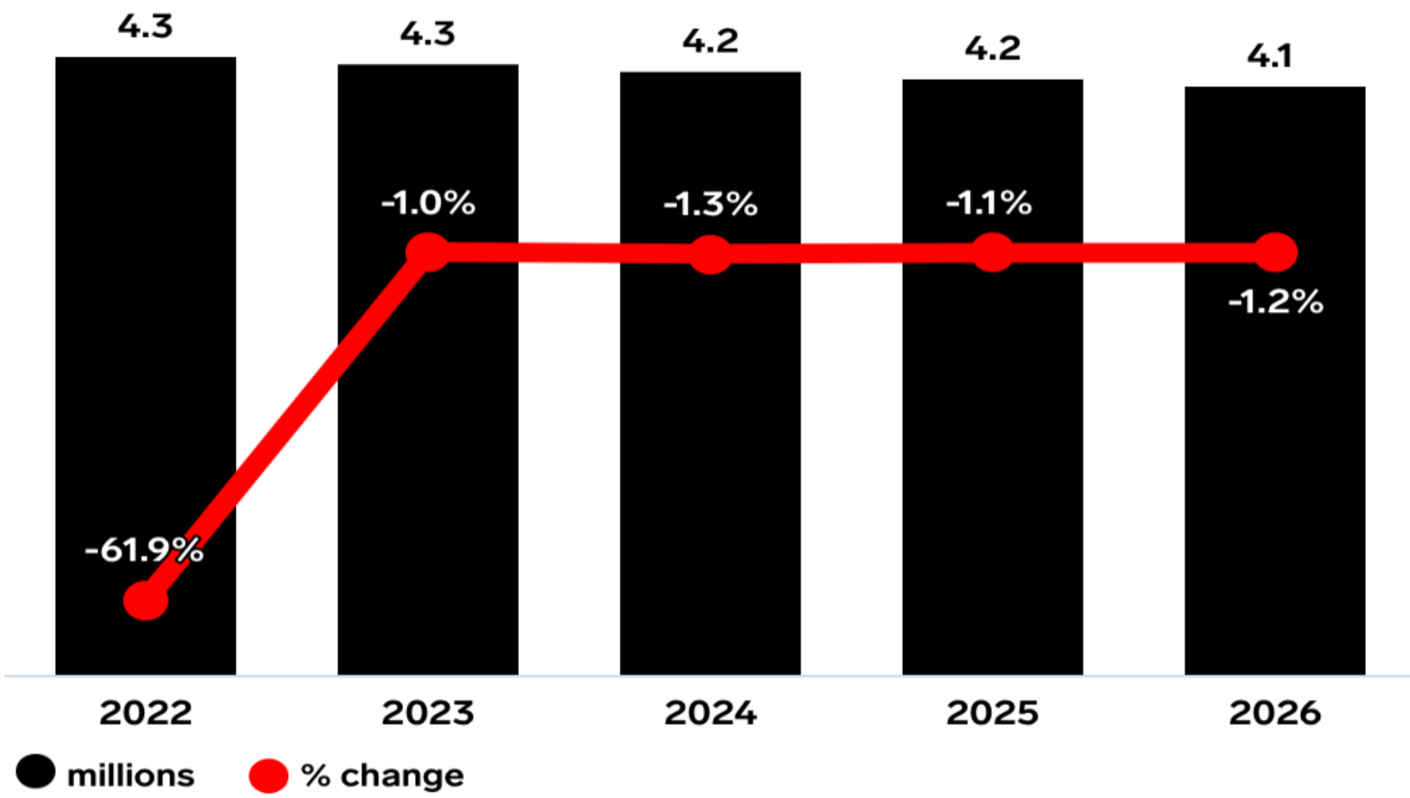
- Neobanks surged in popularity during the pandemic, with new account openings reaching 79% of total digital account openings in 2019. These all-digital banks offered early access to stimulus payments, as well as other perks like higher interest rates and no-fee credit cards.

- The current environment would seem to be ideal for neobanks' continued success. Interest rates are high, and during each year over the total forecast period, at least 2 million digitally-native Gen Zers will turn 18—old enough to open a bank account.
- But most neobanks still have not figured out how to become profitable. They often defined their success by the number of users they could attract—and they were able to reel in many with high-yield savings accounts and limited fees. Neobanks are now realizing that profits don't necessarily follow from a growth-at-all-costs mindset.
- Additionally, funding has dropped significantly in 2022, making it even more difficult for these already struggling banks to keep their heads above water.

Our forecast estimates that the number of neobank account holders will continue to grow throughout the forecast period, but at a declining rate, making up less of the total number of digital account openings.

Digital-Only Bank Account Openings

US, 2022-2026



Note: includes FDIC-backed full service bank accounts, credit union accounts, or brokerage accounts opened via web browsers or mobile app by an individual; excludes traditional banks; excludes accounts opened in person or over the phone but are managed through an online platform
Source: eMarketer, September 2022

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Traditional banks take the lead: While neobanks' troubles are mounting, traditional banks have been dedicating their time and budgets to digital transformation. We forecast that digital account openings at these banks will continue to grow.

- After seeing explosive growth (88%) in 2020, digital account openings continued to increase at a positive rate, hitting 10.2% in 2021 and offsetting the major neobank decrease at 4.1% this year.

The bigger economic and regulatory climate: The economic downturn and looming recession will cause consumers to pay extra attention to their financial health and choose to pursue relationships with financial institutions that they trust.

- As neobanks struggle to break even and sometimes even face bankruptcy or complete closure, customers will likely turn to more established institutions, like traditional banks, without fears that they will go under.
- Neobanks have also recently received more intense scrutiny from regulators for their risk management processes and their handling of things like fraud and anti-money laundering.
- But it's not all bad news for neobanks. While most excel in the digital experience, a few have also found ways to diversify their revenue streams and pull themselves into the black—typically by offering products like loans. Digital banks that can pivot into these alternative revenue streams should make the adjustment now, before economic conditions deteriorate further.

Our take: Across the financial sector, digital accounts are here to stay. Incumbents are closing in on the formerly well-cushioned lead in digital transformation that neobanks once held. Both digital and traditional banks will need to navigate a bleak and potentially prolonged economic downturn, and our current outlook sees traditional banks in a much healthier financial position than neobanks. Rather than solely pushing for account growth, neobanks should work toward generating revenues and let new growth happen organically.

*This article originally appeared in Insider Intelligence's **Banking Innovation Briefing**—a daily recap of top stories reshaping the banking industry. Subscribe to have more hard-hitting takeaways delivered to your inbox daily.*

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