

Canadian Neo Financial's \$185M CAD fund raise signals confidence in neobanks

Article

The news: Canada-based digital bank Neo Financial raised \$185 million CAD (\$147.6 million) in a funding round, [per](#) PYMNTS.

More on this: In addition to the funding, Neo Financial announced it has reached 1 million users. The digital bank offers cash back, savings, and investment products, and later this year plans to offer [mortgages](#). It also touts a number of partnerships with retailers like Hudson's Bay, Home Depot, and H&R Block. With these retailers, Neo Financial offers products like co-branded cards and buy now, pay later options.

Trendspotting: Including Neo Financial, Canadian neobanks have raised over \$1 billion CAD over the past year and are bringing serious competition to the five Canadian incumbent banks.

- [Koho](#), with half a million customers, **raised** CAD\$210 million (\$167.5 million) in Series D funding in February, less than a year after closing its **previous round**.
- [Wealthsimple](#), a fintech with over 2 million users, offers investing, savings, and money transfers, and raised CAD\$750 million (\$598.2 million) in May 2021.

The funding seems to align with a shift in banking regulation in Canada. The country's regulatory **framework** historically gave precedence to managing systemic risk over engendering a competitive environment, making it difficult for challengers to break through on their own. But the tides are turning.

- In 2018, in response to the growth of financial technology services, the Canadian government created an Advisory Committee on Open Banking to review the merits of open banking.
- In 2021, the final report of the Advisory Committee on Open Banking provided recommendations on how to modernize the Canadian financial services sector and implement a secure open banking system.
- In 2022, the Canadian government named a **lead** for the Advisory Committee on Open Banking. The lead is charged with developing an accreditation framework, a common set of rules, and technical standards for an open banking system.

The big takeaway: In Canada, at least, neobanks are gaining steam, fueled by increased funding. But they still face challenges in a country long dominated by a small group of incumbents.

- The two leading digital-only banks, [Simplii](#) and [Tangerine](#), each have over two million users and are owned by incumbent banks CIBC and Scotiabank.

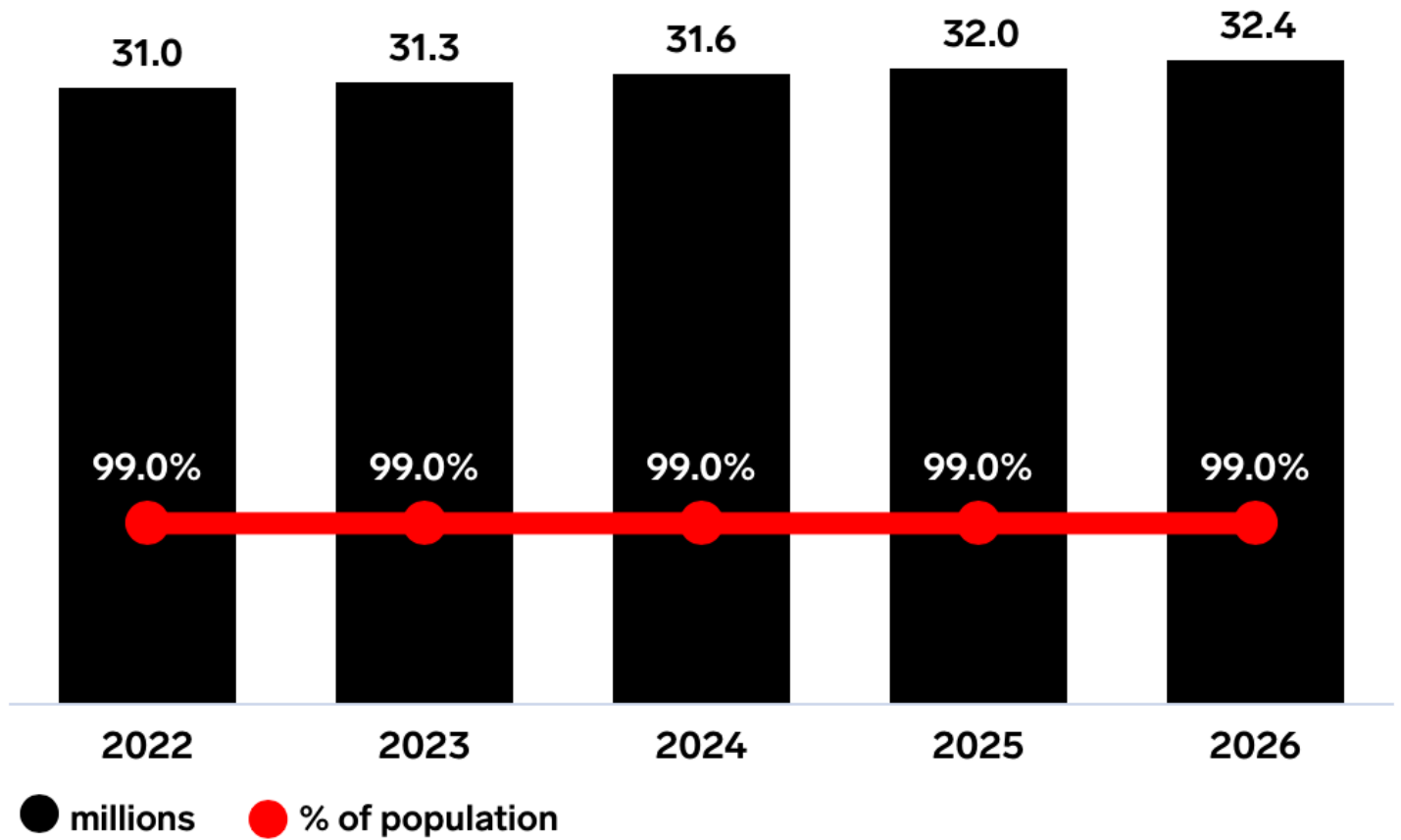
- UK-based **Revolut** pulled away from its strategy in Canada in 2021 as it failed to reach meaningful penetration in the market.

Additionally, 99% of the Canadian population is banked. Neobanks will need to focus on creative ways to set themselves apart from incumbent banks to attract customers. For example

- Koho can lean into its focus on citizens living paycheck to paycheck.
- Neo Financial's partnership with retailers could be the beginning of a foray into embedded finance.

Bank Account Holders and Penetration

Canada, 2022-2026



Source: eMarketer, March 2022

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