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LEGISLATIVE REGULATION OF NEOBANKS IN THE MARKET OF FINANCIAL SERVICES: NAVIGATING THE ERA OF DIGITAL TRANSFORMATION

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Introduction. The rapid advancement of technology has led to a paradigm shift in the financial sector, specifically in the banking industry. Traditional banks are now facing new competitors known as "neobanks" or "digital banks." These neobanks operate purely online and offer enhanced customer experiences, innovative financial products, and seamless digital transactions [1, p. 12].

Thesis 1: The Rise of Neobanks in the Era of Digital Transformation

Neobanks have emerged as disruptive players in the financial services market due to their technology-driven approach, cost-efficient operations, and customer-centric services. They leverage digital innovation, cloud computing, and artificial intelligence to deliver personalized financial solutions [4, p. 45]. As a result, neobanks are reshaping not only customer expectations but also regulatory frameworks.

Thesis 2: Legislative Challenges in Regulating Neobanks

The legislative regulation of neobanks presents numerous challenges for policymakers. Existing regulations may not adequately address the unique attributes and risks associated with digital banking models, potentially hindering innovation and competition [3, p. 189]. Policymakers must strike a balance between fostering financial inclusion, consumer protection, and maintaining stability in the financial system.

Thesis 3: Key Regulatory Considerations for Neobanks

To effectively regulate neobanks, lawmakers should consider the following:

1. Licensing and Prudential Requirements: Establishing a clear framework for obtaining licenses and defining prudential requirements helps ensure the safety and soundness of neobanks, safeguarding customer funds and data [6, p. 76].

2. Cybersecurity and Data Protection: Neobanks must implement robust cybersecurity measures and comply with data protection regulations to prevent data breaches and protect customer information [2, p. 89].

3. Consumer Protection: Regulations should enforce fair and transparent practices, including clear disclosure of fees, terms, and conditions, to protect customer interests [5, p. 123].

4. Anti-Money Laundering (AML) and Know Your Customer (KYC) Regulations: Neobanks must adhere to stringent AML and KYC procedures to prevent financial crimes and ensure the legitimacy of their customer base [8, p. 234].

Thesis 4: International Collaboration and Standardization

Given the global nature of digital banking, international collaboration and standardization are crucial. Regulators must work together to harmonize regulations, share best practices, and develop common international standards for neobanks [7, p. 56]. This ensures a level playing field for neobanks operating across borders while addressing cross-border risks and avoiding regulatory arbitrage.

The rise of neobanks in the era of digital transformation necessitates a careful reassessment of existing legislative frameworks. Policymakers need to strike a balance between encouraging innovation and safeguarding financial stability, consumer protection, and data privacy. Collaborative efforts among regulators on an international scale are crucial to ensure consistent regulation and harmonize the activities of neobanks across different jurisdictions. With the right regulatory approach, neobanks can continue to revolutionize the financial services market, providing customer-centric solutions and driving meaningful change in the industry.

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