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STRUCTURAL TRANSFORMATION OF THE FINANCIAL SYSTEM OF UKRAINE

Mikhachynets H. T.*Ph.D. in Economic, as.prof., senior lecturer,
ORCID: 0000-0003-1109-5896**Mukachevo State University, Mukachevo, Uzhorodskaya, 26, 89600***Shevchenko M. M.***Ph.D. in Economic, as.prof.
ORCID: 0000-0003-2165-9907**National Technical University "Kharkiv Polytechnic Institute",
Kharkiv, Kyrpychova, 2, 61002***Leshanych S. E.***Ph.D. in Economic, senior lecturer,
ORCID: 0000-0003-2903-9737**Ivano-Frankivsk Educational and Research Law Institute of National University
"Odesa Law Academy", Ivano-Frankivsk, Maksymovycha, 13, 76000*

Abstract. Neobanks have become the primary catalysts of the structural transformation of Ukraine's financial system. They disrupt established business models, lower barriers to financial service access, and enhance market competition. Their growth is closely tied to broader trends in financial inclusion, digital literacy, and the implementation of fintech solutions. Thus, the relevance of studying the structural transformation of Ukraine's financial system through the lens of neobank expansion is steadily increasing.

In light of this, the purpose of the article is to analyze the impact of digital banks on the financial system by outlining the specifics of their regulatory environment and identifying the prospects and risks they pose for the sustainable development of the national economy.

The study demonstrated that the spread of neobanks in Ukraine has become a key factor in the structural transformation of the financial system, triggering a series of systemic changes at both the institutional architecture level and in the mechanisms of financial service delivery.

Key words: Ukraine's financial system, neobank, regulatory environment, digitalization, financial infrastructure; demassification of banking services.

Introduction. Over the past decade, Ukraine's financial system — as a set of economic relations formed in the process of creating, distributing, and utilizing monetary funds — has undergone significant changes driven by both internal reforms and external challenges. At the same time, the most striking transformations have resulted from its digitalization, which has facilitated the emergence and rapid development of new financial institutions — neobanks. Against the backdrop of traditional banking institutions, which are under pressure from regulatory changes and shifts in consumer behavior, neobanks stand out for their flexibility, innovation, and high adaptability to the digital economy.



In recent years, the domestic market has seen the emergence of several fully digital banking platforms, with the most well-known being Monobank, Izibank, Sportbank, Neobank, and SENSE SuperApp (by Alfa-Bank Ukraine). Notably, Monobank, launched in 2017 as Ukraine's first neobank without physical branches, was serving over 8 million customers by 2024, reflecting strong consumer trust in the new banking model.

Sportbank, founded in 2019, reached approximately 500,000 active customers by mid-2022; however, on May 6, 2024, it ceased operations and transferred its customer base to its parent company, TAScombank. Izibank, launched in 2020, had around 100,000 active users by the end of July 2021, and by October 2022, the number had grown to approximately 280,000 clients, with a loan portfolio reaching up to UAH 900 million.

Concord Bank, which launched in July 2022, offers a wide range of services — from P2P transfers to automated tax obligation reminders — although official data on its customer base has not been publicly disclosed.

SENSE SuperApp (by Alfa-Bank Ukraine) is an active digital platform, but specific statistics regarding its client base have not been provided.

It is also worth noting that the international neobank Revolut opened registration for Ukrainian users in February 2025 through integration with the "Diia" platform. Over 700,000 Ukrainians are already using its services across the EU.

These data illustrate that neobanks (digital banks without physical infrastructure) have become key catalysts of the structural transformation of Ukraine's financial system. They challenge traditional business models, lower barriers to accessing financial services, and increase market competition. Their development is linked to broader trends in financial inclusion, digital literacy, and the adoption of fintech solutions.

Considering these factors, the relevance of studying the structural transformation of Ukraine's financial system through the lens of neobank expansion is increasing.

Given this relevance, this article aims to analyze the impact of digital banks on the financial system by outlining the characteristics of their regulatory environment



and identifying the prospects and risks they pose for the sustainable development of the national economy.

Main text.

The spread of neobanks in Ukraine has triggered a series of profound changes in the structure and functioning of the financial system. These changes are reflected not only in the transformation of banking service delivery channels but also in the rethinking of the role of financial intermediaries, customer behavior models, regulatory approaches, and the technological foundations of banking operations.

The main features of this transformation include:

- digitalization of the financial infrastructure;
- demassification of banking services;
- increased competition and reshaping of the banking market;
- changing role of the regulator;
- financial inclusion of banking services.

The impact of these features is outlined in more detail in Table 1.

So, above all, neobanks act as powerful drivers of the digital transformation of Ukraine's banking sector, fundamentally changing the way clients interact with financial services. Their operations are based on the use of mobile applications and online platforms, which provide customers with instant access to a wide range of banking operations without the need to visit physical branches. For instance, Monobank allows users to open an account in minutes via its mobile app, featuring convenient card management, utility payments, transfers, and savings with automated budget control tools.

Thanks to the implementation of online identification technologies—such as BankID, electronic signatures, and biometric methods—neobanks have significantly simplified the account opening and identity verification, making banking services more accessible and convenient. They also actively utilize digital payments, automated transaction processing systems, and analytics, which enhance the speed and accuracy of service delivery.



Table 1. Features of the structural transformation of Ukraine's financial system due to the expansion of neobanks

Direction of transformation	Content of the transformation	Result of the transformation achieved to date
Digitalization of financial infrastructure	Neobanks have become catalysts of the digital transformation of the banking sector, bringing mobile applications, online identification, digital payments, and automated solutions to the forefront.	The replacement of physical branches with digital services has led to a reallocation of resources toward investments in IT infrastructure, cybersecurity, and UX design.
Demassification of banking services (or the move away from a universal (mass) approach to customer service)	Unlike universal banks that offer a wide range of standard products, neobanks focus on niche segments, personalizing their offerings and tailoring functionalities to the needs of specific audiences.	Increased flexibility of the financial system, improved customer experience, and better satisfaction of the specific needs of different user groups.
Increased competition and reshaping of the banking market	Neobanks, with lower operating costs and rapid innovation implementation, have intensified competition, forcing traditional banks to adapt.	Optimization of traditional banks' business models, implementation of digital channels, reduction of fees, and enhancement of service quality.
Changing role of the regulator	The National Bank of Ukraine is developing flexible regulatory mechanisms to support fintech innovations, including a "regulatory sandbox" for testing new solutions.	Introduction of new licensing approaches, lowering barriers to entry for digital banks, and improving transparency and security.
Financial inclusion of banking services	Neobanks expand access to financial services for previously underserved population groups, but at the same time, new cyber and operational risks emerge.	Growth in financial literacy and service coverage, along with heightened focus on cybersecurity and management of digital risks.

Source: compiled based on [1-2; 5]

The shift from physical branches to fully digital services has redirected the investment priorities of financial institutions. The main resources are focused on developing IT infrastructure, ensuring cybersecurity to protect personal data and prevent cyberattacks, as well as on UX/UI design to guarantee an intuitive and comfortable user experience.

According to a Deloitte study, over 70% of banking investments in Ukraine in 2023 were directed specifically towards digital technologies and security. At the same time, a Kantar survey found that 85% of neobank users highlight the convenience of mobile apps and the speed of service as the main advantages of new digital banks.



Unlike universal banks that provide standardized services to a broad range of customers, neobanks implement a strategy of narrow specialization, focusing on clearly defined niche segments (see Table 2).

Table 2. Implementation of the narrow specialization strategy by neobanks in Ukraine

Neobank name	Target segment	Signs of neobank service specialization
Sportbank (now TAScombank)	Active users, athletes, and supporters of a healthy lifestyle.	Thematic branding, cashback on categories like "sports," "fitness," and "tourism"; promotions for participants of sports events; partnerships with sports brands.
Izibank	Youth, digitally active users	Simple app interface, fast online registration, no paperwork bureaucracy, transparent fees, convenient mobile functionality.
monobank	Freelancers, self-employed, IT specialists	Opening a sole proprietor account (FOP) in a few clicks, integration with tax services (e.g., "Diia"), flexible expense limit settings, convenient analytical features.
NEOBANK (Concord)	Mass segment, but with a focus on simplicity and innovation	Quick account opening, a universal app combining P2P transfers, deposits, utility payments, card management, and credit limits.

Source: compiled based on [1-3; 6]

Neobanks create targeted offerings for specific socio-demographic or professional groups by focusing on the following features:

- audience segmentation (targeting specific groups—youth, entrepreneurs, freelancers, athletes, etc.—rather than the "average customer");
- personalized products (developing specialized cards, loans, savings accounts, and loyalty programs);
- targeted communication (marketing and support tailored to the lifestyle and values of the target segment);
- flexible digital functionality (apps and services designed to accommodate the specific user experience).

The personalization of banking products enables neobanks to understand their target audience's needs better and create more flexible, technologically advanced financial solutions. In turn, this contributes to increasing customer-centricity in the financial system as a whole and creates the foundation for strong user loyalty to digital financial services.



The emergence of neobanks has posed a challenge to traditional banking institutions, as digital players offer more flexible, faster, and more accessible financial services.

This is demonstrated by the comparative characteristics of financial services provided by neobanks and traditional banks (see Table 3).

Table 3. Comparative characteristics of financial services provided by neobanks and traditional banks

Criterion	Neobanks	Traditional Banks
Flexibility	Rapid product updates and real-time testing of new features (e.g., cashback, savings "jars," automatic debiting functions).	Changes require lengthy approvals and are often accompanied by complex procedures.
Speed of service	Account opening within minutes via the app, instant transfers, push notifications.	Processing through branches, paper documents, queues, and waiting for confirmation.
Accessibility	24/7 access to services from anywhere via smartphone; no territorial restrictions.	Limited by working hours and the physical presence of the client at the branch.
Operating costs	Low costs due to the absence of branch networks and process automation.	High costs for personnel, rent, and maintenance of physical infrastructure.
Pricing policy	Low or no fees, transparent tariffs, flexible pricing.	Complex fee structures, additional charges for service or cash withdrawals.
Innovativeness	Continuous functionality updates, gamification, integration with government services (such as "Diia," tax services, etc.).	Innovations are implemented slowly, often within pilot projects.

Source: compiled based on [3; 6]

The business model of neobanks is based on significantly reducing operational costs, the absence of physical infrastructure, and the automation of most processes [3]. Combined with the high speed of launching new products, this provides neobanks with a competitive advantage in the race for customers. This leads to a gradual reshaping of the banking market structure, where digital services cease to be merely an additional channel and instead become the primary environment for customer interaction.

The spread of neobanks and digital financial technologies has necessitated the transformation of the regulatory framework applied by the National Bank of Ukraine.



Specifically, the regulator no longer limits itself to control and supervision but acts as an active participant in developing an innovative financial environment through (see Fig. 1):

1. Institutionalizing fintech development (for example, in 2020, the NBU adopted the first-ever Fintech Development Strategy for Ukraine until 2025).
2. Launching a platform for innovative financial solutions (for instance, in April 2023, the NBU officially launched a platform for testing fintech products in a safe environment).

This indicates a shift from the role of a "controller" to an "innovation facilitator," policy in the field of financial innovations and the promoting the development of the fintech formation of a comprehensive approach to environment by allowing companies to test new products without full compliance with all regulations.

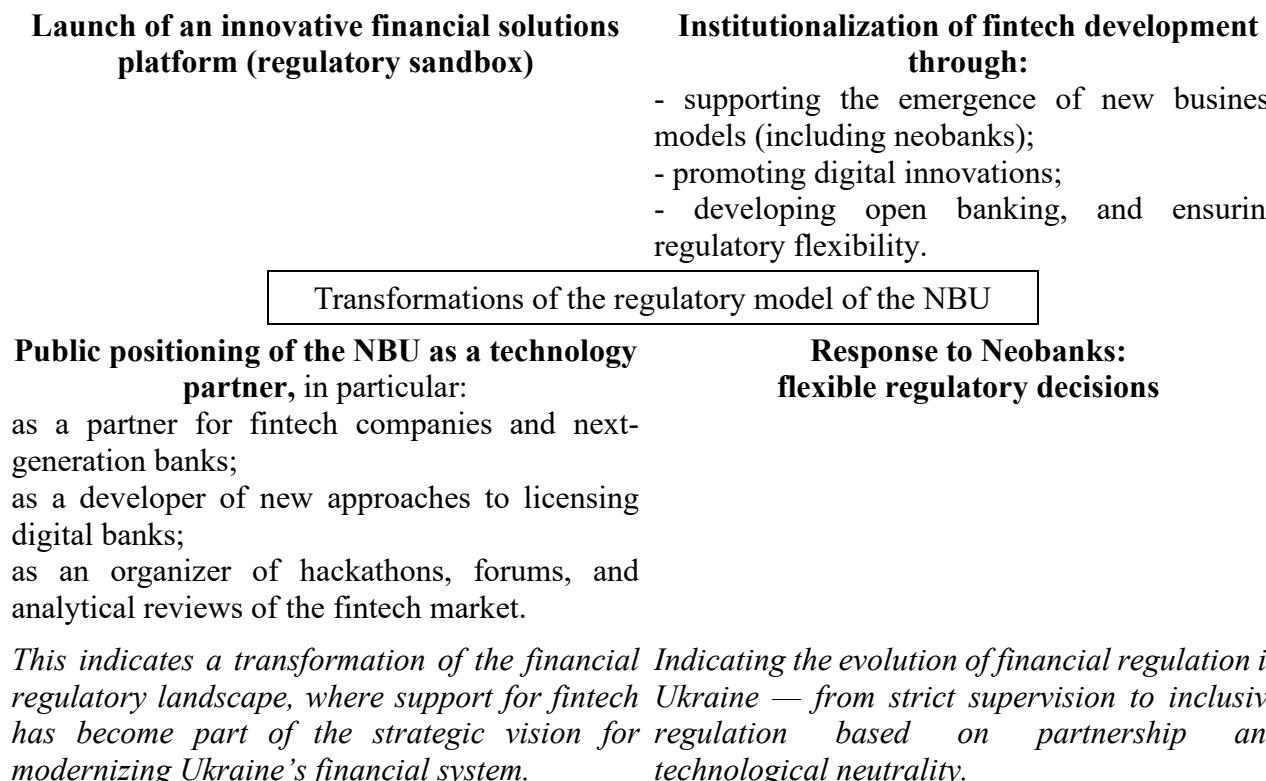


Figure 1. - Directions in which the NBU is reshaping its regulatory strategy in response to the growth of digital financial technologies and neobanks

Source: compiled based on [1-2; 4]



3. Publicly positioning the NBU as a technology partner (notably, in its communications, the NBU increasingly uses terms such as “pro-innovation regulator,” emphasizing its role as a partner for fintech companies and next-generation banks).

4. Responding to neobanks (specifically, the NBU’s flexible regulatory decisions aim to adapt legislation for non-bank financial service providers, electronic money, virtual IBANs, and cloud solutions used by neobanks to serve clients).

The National Bank of Ukraine is gradually transitioning from a purely supervisory body to a proactive player that fosters innovation in the financial sector. In our opinion, among the most important directions that will continue the transformation of the NBU as an active participant in the development of an innovative financial environment is the creation of a platform for innovative financial solutions (or a "regulatory sandbox") — a special regime within which fintech companies and neobanks can test innovative products and services in a controlled environment without the full regulatory burden (see Table 4).

Table 4. Key functions and operational mechanism of the NBU regulatory “Sandbox”

Function	Description of the regime	Conditions for applying the regime
Market interaction	Communication between the NBU and market participants regarding product development, discussion of innovations, and feedback on proposals.	Only authorized providers of financial or payment services under Ukrainian legislation can participate.
Regulatory improvement	Analysis of tested products enables timely updates to the regulatory framework, fostering rapid and lawful market entry.	
Product testing	Launch of innovative payments, open banking services, and IT/DVD technologies that lack clear legal status — under controlled conditions with transaction and client limitations.	

Note

* The main criteria for a product’s admission are as follows: the product must be unique or significantly better than existing similar services; it must not conflict with competition protection laws; there must be no legal prohibitions against the product; there must be no specific regulatory norms that would prevent its implementation outside the sandbox environment.

Source: compiled based on data from Interfax-Ukraine and Liga Zakon National Bank of Ukraine

Currently, no Ukrainian bank or neobank has begun testing an innovative product in the NBU’s regulatory sandbox. However, according to the updated Fintech



Development Strategy through the end of 2025, the NBU aims to increase the number of tested startups to 16–20 per year. It is expected that such testing will accelerate the introduction of new services while maintaining risk control.

Neobanks play a significant role in enhancing financial inclusion in Ukraine by expanding access to banking services for population groups that have traditionally had limited access to conventional financial institutions. Mobile applications, simplified identification, and online account opening have created a barrier-free environment for groups such as youth and students, rural residents, internally displaced persons (IDPs), representatives of creative professions, and self-employed individuals.

At the same time, this financial inclusion generates new types of outcomes and risks within the financial system, which we have outlined in Table 5.

Table 5. Characteristics of the outcomes and risks generated by financial inclusion

Financial inclusion area	Content of the transformation of banking services	Outcomes and risks
Digital access to financial services	Ability to open accounts, make payments, and access credit products via mobile apps without visiting branches	Outcomes: Expanded access to financial services for rural populations, youth, and IDPs. Risks: Digital divide affecting users with low digital literacy.
Simplified customer identification (eKYC)	Online identification using BankID, Diiia.Signature, and video verification.	Outcomes: Accelerated onboarding of clients into the financial system. Risks: Increased vulnerability to fraud in cases of insufficient identity verification.
Focus on the self-employed and microbusinesses	Products for sole proprietors, integration with tax services, expense analytics, and online accounting.	Outcomes: Legalization of income and improved financial management for microbusinesses. Risks: Potential overload of digital infrastructure in the event of mass adoption.
Financial Services for Students and Youth	Free accounts, cashback offers, gamified products, budgeting tools, and instant transfers.	Outcomes: Growth in financial literacy and a stronger culture of saving. Risks: Excessive consumer lending among vulnerable groups.
Unification through major platforms (super apps)	Centralization of services within 2–3 major neobanks, increasing user dependency on digital ecosystems.	Outcomes: Convenience and comprehensiveness of service delivery. Risks: Potential systemic threat in case of technical failure or cyberattack on major players.

Source: compiled based on [5-6]



Thus, the financial inclusion driven by neobanks significantly democratizes access to financial services, but at the same time requires new approaches to risk management from both the regulator and market participants.

Summary and conclusions.

The spread of neobanks in Ukraine has become a key factor in the structural transformation of the financial system, initiating a series of systemic changes both at the level of institutional architecture and in the mechanisms of financial service delivery. The research has found that neobanks have not only transformed customer interaction through digitalization but also redefined the role of banks as financial intermediaries in the digital age. The main vectors of this transformation include:

- 1) Digitalization of financial infrastructure, which facilitated the replacement of physical branches with digital channels, optimizing costs and enhancing the convenience of banking services;
- 2) Demassification of banking services, whereby neobanks implement narrow specialization strategies targeting specific user segments;
- 3) Increased competition and market reshaping, forcing traditional banks to adapt to new conditions and accelerate their digital transformation;
- 4) Evolution of the regulatory environment, within which the National Bank of Ukraine has shifted from the role of a traditional supervisor to an active innovation facilitator, notably through the launch of the “regulatory sandbox” platform;
- 5) Expansion of financial inclusion, providing access to banking services for previously excluded population groups, while simultaneously generating new challenges, including cyber risks and data protection issues.

Thus, neobanks act not only as technological innovators but also as agents of institutional restructuring within the banking sector, laying the foundation for a more flexible, customer-oriented, and resilient financial system. The further development of this transformation will require synergy between the fintech sector, government institutions, and consumers, as well as an increased focus on risk management and digital security.



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