2026 MAY

NEOBANKS AND ARMENIAN LAW: IN SEARCH OF REGULATORY GATEWAYS FOR DIGITAL-ONLY BANKING

Prepared By: Larisa Gevorgyan

NEOBANKS AND ARMENIAN LAW: IN SEARCH OF REGULATORY GATEWAYS FOR DIGITAL-ONLY BANKING

Overview

Neobanks, digital-only financial institutions, are reshaping the global banking landscape by offering streamlined, app-based services without the infrastructure of traditional branch networks. This note provides an overview of the neobank model and examines how Armenia's current legal and regulatory framework accommodates or constrains such institutions, with a view toward potential developments and market opportunities.

Defining Neobanks in the Global Regulatory Landscape: Models and Key Features

Traditional banks rely on brick-and-mortar branches and legacy IT systems, often resulting in high operational costs. Neobanks, by contrast, are built on cloud-native or modern core banking technologies, allowing leaner, more scalable operations. They prioritize user-friendly, intuitive digital interfaces and rapid onboarding, and are typically more agile in adopting features such as instant payments, budgeting tools, and card controls, catering to digitally native clientele.

While traditional banks are licensed under full banking charters and may offer the full range of banking services, including deposit-taking, lending, and investment products, neobanks vary: some hold full banking licenses (e.g. Revolut, which started as a fintech company but now owns a full banking license), while others operate in partnership with licensed banks under fintech (payment) or e-money licenses (e. g. Wise). Such partnerships are used to access and provide clients with access to banking infrastructure without owning and/or operating one, usually by opening "client (segregated) accounts" with those partner banks and "intermediating" banking services, acting as a front desk through the relevant digital interface.

The regulatory requirements applicable to banks (e. g. financial crime prevention, CDD and KYC checks, prudential standards) are handled accordingly. A neobank holding a full banking license shall be obliged to comply with all banking requirements (including minimum capital and other prudential standards) and be responsible for such compliance, whereas e-money companies typically face lighter capital and prudential requirements. While those payment institutions are generally captured by identification, due diligence, and "know your customer" frameworks, other regulatory aspects (e. g. client funds protection, banking secrecy) are less strict. In such cases, third-party banking infrastructure providers step in to deliver services that the payment license does not permit, while also taking on the associated, more stringent banking-level regulatory obligations.

Some jurisdictions have introduced bespoke licensing regimes for neobanks, Thailand ("Virtual Bank Licensing" framework) being among them. Such an approach, however, is not common: most neobanks still rely on either a banking or a fintech (payment) license. At the same time, certain jurisdictions have introduced specific regulatory approaches for "limited/light capital" banking, which are used, among other things, as gateways for neobanks. For example, Lithuania introduced a “specialized bank” licensing regime permitting licensed institutions to provide core banking services, including deposit-taking and lending, subject to lower minimum capital requirements than those applicable to full-service banks and certain restrictions on the scope of permitted activities: namely, such institutions may not engage in investment services. In the United Kingdom, the regulatory framework facilitated the emergence of so-called “challenger banks”, which are not, however, a separate legal or regulatory category under UK law. Such institutions are generally subject to the same banking regulatory framework applicable to other licensed banks, although certain regulatory measures were introduced to facilitate market entry for newly established banks. Such a “mobilization” regime allows newly authorized banks to commence operations subject to certain temporary restrictions while completing the build-out of their operational and regulatory infrastructures.

Armenian Regulatory Framework and Background

During the early post-Soviet period, Armenian banking legislation contemplated the existence of both specialized and multi-profile banks. However, with the comprehensive reforms introduced by the 1996 banking legislation and subsequent amendments thereto, Armenia gradually moved toward a universal banking model.

Particularly, the modern Armenian banking regulatory framework was established following the adoption in 1996 of the key sectoral laws, including the Law of the Republic of Armenia “On the Central Bank of the Republic of Armenia”, the Law “On Banks and Banking Activity”, and the Law “On Bank Secrecy”. These legislative acts laid the foundations for a market-oriented banking system operating under a universal license, prudential supervision, and centralized regulation by the Central Bank of the Republic of Armenia (“CBA”).

Under the current framework, a bank licensed by the CBA is generally authorized to perform the full spectrum of banking and financial activities permitted by law, subject to compliance with applicable prudential, capital adequacy, liquidity, governance, and risk-management requirements. Banks operate under a single universal banking license, enabling them to provide a broad range of services, including deposit-taking, lending, payment services, foreign exchange operations, securities-related services, custody, trade finance, and other financial activities expressly permitted by law and CBA regulations.

The Armenian universal banking regime has been accompanied by a highly centralized supervisory architecture. The CBA acts as the sole banking regulator and supervisory authority, possessing exclusive competence with respect to licensing, prudential regulation, supervision, reporting, enforcement measures, and sanctioning powers vis-à-vis banks and banking groups operating in Armenia.

Alongside the development of the universal banking framework, Armenian financial regulation has also introduced distinct categories of specialized financial institutions operating outside the banking sector. Armenian legislation and the CBA’s regulatory framework regulate, among others, payment and settlement organizations, credit organizations, investment firms, insurance companies, investment fund managers, currency dealers, and crypto-asset service providers. In particular, the introduction of the regulatory framework for payment and settlement organizations enabled non-bank entities to provide certain payment-related and money remittance services subject to separate licensing and regulatory requirements, without obtaining a banking license. Armenian legislation does not currently provide for a separate licensing category specifically tailored to "neobanks" or fully digital banks, or to any "specialized/limited banking" regimes.

Regulatory pathways and structuring considerations

As in most other jurisdictions, there is no dedicated neobank or digital-only licensing regime in Armenia; any existing tools for operating such infrastructures should be sought within the regulatory regimes for banking and payment services. While obtaining a full banking license remains the broadest regulatory option from a scope-of-permitted-activities perspective, it is also associated with the full range of licensing, capital, prudential, governance, and operational requirements applicable to banks. In this respect, the operational structures commonly used by European neobanks, may also be accommodated within the Armenian regulatory framework.

Such structures would involve operation under payment or electronic money institution frameworks alongside cooperation with licensed banking institutions providing the underlying banking infrastructure and regulated account services. The neobank would primarily interface with clients through digital channels, whereas certain regulated banking functions would remain within the licensed banking institution. This approach may constitute a more feasible path for market entry and initial operation, including with a view to potential subsequent expansion into a fully licensed banking business.

Potential success in establishing and operating a neobank would depend critically on the selection of the appropriate legal structure. The chosen framework will determine the allocation of responsibilities, regulatory compliance, and the management of customer relationships. Among the key issues to address are:

- **Licensing perimeter** – ensuring that the institution's activities remain strictly within its regulatory authorization and any functions not permitted under a payment license are duly delegated to a trusted banking partner;
- **Risk allocation** – defining liability among the partners in respect of AML/CTF obligations, safeguarding of client funds, and operational resilience;
- **Commercial arrangements** – structuring cooperation (e.g., white-labelling (i. e. marketing and offer of one firm's products/services by another firm), revenue-sharing, or joint service provision) in a way that aligns the fintech's business model with the bank's prudential requirements;
- **Customer interface** – clarifying which entity is regarded as the contracting party for consumers and which carries the associated consumer protection, complaints, and dispute resolution obligations.

A legal structure that fails to address these issues may expose the parties to supervisory scrutiny or regulatory intervention. Conversely, a well-designed framework would enhance compliance certainty and mitigate risks.

How can we help

Our team has extensive experience assisting financial institutions, including payment service providers, credit organizations, and investment firms, with structuring their products and services and obtaining the necessary CBA authorizations. Do not hesitate to book a call/meeting with us to discuss your business case.

Disclaimer

This note has been prepared in May 2026, is for informational purposes only, and does not constitute legal advice. We reserve the right not to update this note should laws or regulations change.