International Journal of Research Publication and Reviews, Vol 5, no 7, pp 410-413 July 2024

WWW.IJRPR.COM

International Journal of Research Publication and Reviews

Journal homepage: www.ijrpr.com ISSN 2582-7421

Neo Banking: A Paradigm Shift of Banking in India

Dr. Niharika Prasad

Assistant Professor, School of Management, Graphic Era Hill University, Haldwani
Email: niharikaprasad64@gmail.com

ABSTRACT

Neo Banking represents a transformative shift in the banking landscape of India, blending technology with financial services to cater to evolving customer needs. This abstract explores how Neo Banks, leveraging digital platforms and innovative business models, offer a range of financial products and services without traditional brick-and-mortar infrastructure. By focusing on accessibility, convenience, and personalized experiences, Neo Banks target tech-savvy consumers, small businesses, and underserved segments. This paradigm shift challenges conventional banking norms by emphasizing seamless digital transactions, real-time financial insights, and enhanced customer-centricity. As regulators adapt to accommodate these new entities, Neo Banking pioneers in India are poised to reshape financial inclusivity, foster innovation in payment systems, and redefine customer engagement strategies. This abstract discusses the impact of Neo Banking on financial ecosystems, highlighting opportunities for collaboration, regulatory considerations, and the potential to drive broader economic empowerment in the digital era.

Introduction

A neobank is a banking platform that is purely digital, and offers basic banking services to customers through an application and/or website. Neo banking represents a new age of digital banking services that are completely online, without any physical branches **(Monis and Pai 2023).** This innovative approach leverages technology to offer a range of banking services through mobile apps and websites, catering to the needs of digitally-savvy customers **(Sardar, and Anjaria, 2023).** Neo banks are financial technology (fintech) firms that provide digital and mobile-first financial solutions. Neo banks constitute a significant part of these fintech companies disrupting the traditional banking ecosystem **(Bradford, 2020).** These financial institutions are bridging the gap that exists in the conventional banking system by offering tech-first solutions **(Lindström, and Nilsson, 2023).** These are 100% digital banks. Since the RBI does not allow 100% digital banking operations, they cannot apply for a banking license. The expertise of these neo banks lies in tying technology and artificial intelligence together to offer personalized financial services to customers **(Abuladze, 2022).**

Functions of Neo Banking

The operating model of a neo bank is very different from a traditional or a digital bank. Since these banks have no physical locations, branches, or employees at these branches, they save a lot of money on operational and overhead costs **(Bataev and Bataeva, 2021).**

- The primary function of a neo bank is to offer customers tech-led banking services.
- The banking partner provides access to funds for lending and even offers to hold the customer's funds.
- At the same time, the neo bank operates the app, distributes the product, and ensures customer satisfaction, end-to-end customer acquisition and client servicing.
- These non-licensed fintech companies generally collaborate with traditional banks and provide new-age banking services on modern, easy-to-navigate apps.

Difference between Neo banks, Digital Bank and Conventional Bank

Criteria	Neo banks	Digital Bank	Conventional Bank
Regulated by a Bank?	Not regulated by banks (they follow RBI and govt. regulation)	Regulated	Regulated
Customer Support	Online	Online	In-person, online

Banking License	None/partial/full	Partial	Full
Service Platforms	Web services and mobile apps	Web services and mobile apps	Physical establishment
Application Process	Online	Online	In-person
Approval Process	Quick	Quick	Manual and time-consuming

Source: https://freo.money/guides/neobanks-in-india

Rise of Neo Banking in India

India has experienced a boom in its financial technology industry over the past several years, with the emergence of hundreds of new fintech businesses. Neo banks are a new breed of non-bank fintech firms that resolve smooth online experiences with negligible to no-fee services **(Dokania, 2020).** Some of the reasons for emergence of neo banking in India:

1. Technological Advancements: India's robust technological infrastructure and high smartphone penetration have paved the way for the rise of neo banking. The widespread availability of the internet and affordable data plans have made digital banking accessible to a large portion of the population.
2. Regulatory Support: The Reserve Bank of India (RBI) has been supportive of digital banking initiatives, introducing regulations and guidelines that encourage innovation in the financial sector. This includes the introduction of licenses for payment banks and small finance banks, which has further boosted the growth of neo banking.
3. Changing Consumer Behavior: With the growing acceptance of digital payments and the convenience they offer, consumers are increasingly looking for banking solutions that are quick, easy, and accessible from anywhere. Neo banks address these needs by providing a seamless digital experience.
4. Pandemic Impact: The COVID-19 pandemic accelerated the adoption of digital banking as people avoided physical branches and preferred online transactions. This shift in behavior further emphasized the need for comprehensive digital banking solutions.

Key Players in the Indian Neo Banking:

Several neo banks have emerged in India, each offering unique value propositions. Some of the prominent players include:

1. Niyo: Offers digital savings accounts, international debit cards, and wealth management services.
2. InstantPay: Provides business banking solutions, including current accounts, payment processing, and expense management.
3. Jupiter: Focuses on personal finance management with features like goal-based savings, spending insights, and reward programs.
4. RazorpayX: Targets businesses with services such as corporate accounts, payroll management, and automated payouts.

Advantages of Neo Banking

With bank turmoils like Silicon Valley Bank and Signature Bank, there is no doubt that neobanks have been gaining momentum more than ever. As recent bank runs have demonstrated, relying on a single bank can put businesses at risk of losing their entire deposits **(Danevska, 2021).** Neobanks, which offer digital banking services without brick-and-mortar branches, can be a convenient and cost-effective option for businesses to consider **(Reepu, 2023).**

1. Due to the technological nature of neobanks, they do not require any physical bank branches, which helps them save on overhead expenses. As a result, neobanks are usually able to offer zero or low fees as well as no minimum balance accounts for customers.
2. Neobanks are fairly easy to access and use for tech-savvy customers. As such, you can easily set up an account within minutes through their online application.
3. Since neobanks are completely digital, they operate 24 hours a day and their services can be accessed anywhere in the world, at any time. All you need is an active internet connection and a mobile phone or computer. Neobanks are a convenient way for you to deposit checks, manage your finances, and make payments with ease.
4. More digital tools and workflow improvement solutions: Neobank apps can come flushed with tools that allow users to invoice, collect and pay bills in a streamlined user interface. These apps can be integrated with your favourite accounting software to facilitate bookkeeping providing you with convenience and a hassle-free experience.

Disadvantages of Neo Banking

While there are some excellent reasons to open an account with a neobank, there are also some downsides worth considering, such as:

1. No Physical Branches: It's relatively easy to manage your account online, but you may want the option to visit a branch and get help in person. Having the ability to ask questions in person can be helpful when dealing with more complex transactions. Live phone or chat help is sufficient for most banking needs, but in-person assistance may save time and effort in some situations.
2. Limited Access to Cash: Unlike traditional banks that maintain their own ATMs, neobanks typically offer access to partner ATM networks operated by other banks or companies. However, with both traditional banks and neobanks, you could incur a fee if you withdraw cash from an out-of-network ATM, although many neobanks cover this fee.
3. Potentially Limited Range of Financial Products: Neobanks often dive deep into a few specific benefits instead of spreading wide with a broad array of products and services. As a result, you may not have mortgages, auto loans and other products commonly found at traditional banks. Similarly, many neobanks don't provide common banking products and services like notary services, investments or insurance policies **(Rangaswamy *et al.*, 2022).**

The Path Forward: Collaboration and Innovation

Neobanks may thrive in the face of severe regulatory obstacles by embracing teamwork, creativity, and proactive compliance measures:

1. Regulatory Engagement: Neobanks should take a proactive approach to dealing with regulatory bodies to obtain a better understanding of how regulations are changing, to support changes to regulations that will encourage innovation, and to have a positive conversation about compliance matters.
2. Technology-Driven Compliance Solutions: Neobanks may lower compliance costs, improve risk management capabilities, and streamline compliance processes by utilizing cutting-edge technology like blockchain and artificial intelligence.
3. Partnerships with Regtech Providers: Neobanks can enhance their compliance posture and stay up to date on regulatory changes by working with regulatory technology (Regtech) companies that specialize in data analytics, regulatory reporting, and compliance automation.
4. Emphasis on Customer Education: To empower customers with information about their rights, obligations, and the legal protections in place to protect their financial interests, neobanks should place a high priority on open communication and consumer education programs.
5. Neobanks need to foster an environment of flexibility and adaptation to promptly address changing regulatory mandates, market conditions, and developing threats. They also need to keep an unwavering emphasis on innovation and client satisfaction **(Sibanda *et al.*, 2020).**

Conclusion

Neobanking in India is expected to have a bright future thanks to ongoing technological improvements, shifting consumer tastes, and changing regulatory frameworks. Neobanks will be essential in promoting financial inclusion, encouraging innovation, and changing the banking landscape as more Indians adopt digital banking alternatives. To sum up, neobanking is a paradigm shift in the Indian banking industry that promotes financial inclusion and innovation while providing consumers with affordability, accessibility, and convenience. Working together, traditional banks, fintech companies, and regulatory agencies will be crucial as the market develops to fully realize the promise of neo banking and guarantee a stable, inclusive financial system for all.

However, Neobanks face significant obstacles in the regulatory environment, which calls for a careful balancing act between innovation and compliance. Neobanks may successfully negotiate the regulatory labyrinth and carve out a position in the very competitive banking sector by adopting proactive compliance tactics, encouraging regulatory engagement, and utilizing technology-driven solutions. Neobanks have the chance to alter banking in the future, rethink consumer experiences, and promote positive change in the global financial ecosystem as stewards of financial innovation.

Reference

- Abuladze, B. (2022). The Future of Neobanking. *Business Administration Research Papers*, *7*.
- Bataev, A., & Bataeva, K. (2021, October). Challenger banks performance model. In *Proceedings of the 3rd International Scientific Conference on Innovations in Digital Economy* (pp. 425-433).
- Bradford, T. (2020). Neobanks: Banks by any other name. *Federal Reserve Bank of Kansas City, Payments System Research Briefing, August, 12*, 1-6.
- Danevska, B. A. (2021). Reinvention of New Banking Business Models in Republic of North Macedonia. *Trends in Economics, Finance and Management Journal (TEFMJ), 3*(2), 42-52.
- Dokania, Y. (2020). NEO Bank-Revolution in Indian Banking Sector-A Critical Analysis. *Issue 6 Int'l JL Mgmt. & Human.*, *3*, 361.

- Lindström, V., & Nilsson, O. (2023). The sudden rise of neobanks and the threat it poses upon the traditional banking system.
- Monis, E., & Pai, R. (2023). Neo banks: A paradigm shift in banking. *International Journal of Case Studies in Business, IT and Education (IJCSBE)*, *7*(2), 318-332.
- Rangaswamy, E., Nadipilli, N., & Nawaz, N. (2022). RETRACTED CHAPTER: A Comparative Study of Traditional Bank A and Digital Bank B from an Organizational Innovation Perspective. In *Communication and Intelligent Systems: Proceedings of ICCIS 2021* (pp. 489-507). Singapore: Springer Nature Singapore.
- Reepu, R. (2023). Banking of the Upcoming Age: Neo Banks. In *Cultural Marketing and Metaverse for Consumer Engagement* (pp. 38-50). IGI Global.
- Sardar, S., & Anjaria, K. (2023). The future of banking: how neo banks are changing the industry. *International Journal of Management, Public Policy and Research*, *2*(2), 32-41.
- Sibanda, W., Ndiweni, E., Boulkeroua, M., Echchabi, A., & Ndlovu, T. (2020). Digital technology disruption on bank business models. *International Journal of Business Performance Management*, *21*(1-2), 184-213.