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A Study on Neo Banking and its Impact on the Overall Financial Landscape

S. Nithish Kumar[1], Mr. N. Suresh[2], Dr. Vara Lakshmi Thavva[3]

[1]Master of Business Administration, Institute of Aeronautical, Engineering, Hyderabad 500043, Telangana India. 23951E0026@iare.ac.in
[2]Assistant Professor, Department of Master of Business Administration, Institute of Aeronautical Engineering, Hyderabad-500043, Telangana, India. n.suresh@iare.ac.in
[3]Professor & HoD, Department of Master of Business Administration, Institute of Aeronautical Engineering, Hyderabad 500043, Telangana India.
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ABSTRACT

The study examines the birth of neo banking, i.e., banks without physical establishments, and its transformation of the financial sector. It outlines the advantages of neo banks-they are cost-efficient, faster, better user experience, and enhanced financial inclusion. In addition, other issues are touched on, such as regulations, cybersecurity, and trust on the part of the clients. With the analysis done via reviews of literature and the industry, the paper assessed the impact that neo banks have on traditional banking and how such influence could very well mold the future of financial services. Finally, the study renders some important recommendations for regulators and other stakeholders to sustain an enabling and secure environment for digital banking.

Keywords: Neo-banking, FinTech, Digital banking, Financial inclusion, Customer experience, Regulatory challenges, Cybersecurity, Financial innovation.

1. INTRODUCTION

The worldwide financial industry is indeed witnessing a sea change owing to rapid advancing in technology. Neo-banks top the list in terms of disruption, since these banks completely eschew physical branches and operate through digital means. Neo banks, or digital-only/ challenger banks, exist essentially to nurture great user experience in banking using new technologies such as AI, big data analytics, cloud computing, and mobile applications.

Unlike conventional banks, neo banks do not carry heavy overheads and in turn can afford to offer more attractive, low-cost services with faster transaction speeds, personalization possibilities, and service availability around the clock. Their approach of "being digital at the front-end" has made them quite attractive to young generations of consumers, to small businesses, and also to the previously excluded. Therefore, neo banks are powerful enablers for driving financial inclusion and modernizing financial ecosystems.

This research will explore neo banking in- depth, ensuring an investigation into its benefits and challenges and its consequent effects on financial services. Through a meticulous study of existing literature and industry data, this research highlights the changing financial norms brought about by neo banks and what their emergence means for the future of banking. The findings provide strategic recommendations aimed at financial institutions, policymakers, and regulators to ensure the nurturing of secure, inclusive, and innovative digital banking.

2. OBJECTIVES

- To investigate the development and unique characteristics of neo-banking in contrast to conventional banking.
- To evaluate how neo banks affect market dynamics, cost-efficiency, and financial inclusion.
- To determine the main issues affecting neo banks, such as cybersecurity, regulations,and trust.
- To assess neobanking's prospects for the future and provide stakeholders with strategic recommendations.

3. NEED OF THE STUDY

The digitization of financial services is advancing at an unprecedented pace, thus making neo-banking a disruptive force in modern banking worldwide. Unlike traditional banks, neo banks operate without brick-and-mortar branches; they harness state-of-the-art technology to deliver banking solutions that are fast, simple, efficient, and affordable. A study is warranted to understand how neo banks are changing the financial system, enhancing customer experience, and providing financial inclusion. It will also address the regulatory, operational, and security challenges that neo banks are facing, which in turn will assist the stakeholders to navigate this emerging segment and brace it for a future where finance is driven digitally.

4. SCOPE OF THE STUDY

This study examines the operational model, customer adoption, and impact of neo banks on the financial landscape. It covers a comparative analysis with traditional banks, focusing on technology integration, cost efficiency, and user experience. The research evaluates regulatory and cybersecurity challenges and the role of neo-banks in promoting financial inclusion. The study also includes selected case studies of Indian and global neo-banks to understand growth patterns and sustainability. All aspects are supported by data that can be quantitatively and qualitatively analyzed.

5. METHODOLOGY OF THE STUDY

This study adopts a descriptive and analytical research design. It is based on secondary data collected from journals, research articles, fintech reports, company websites, and regulatory publications. Comparative analysis is used to evaluate the performance and impact of neo banks against traditional banks.

Where applicable, qualitative insights from case studies (e.g., Revolut, Chime, Jupiter, Fi) and quantitative data (such as user adoption rates, growth metrics, and customer satisfaction scores) are analyzed to test the study's objectives. Data is interpreted using charts, graphs, and tabular formats for clarity.

6. LITERATURE REVIEW

Chandrashekar and Arora (2021) analyzed the developing contours of neo banking and crystallized the way it transformed the customer experience through the actions and services of digitally-only financial institutions. An important dimension of their findings is the shift from a traditional relationship-based bank model to a digital-first, app-only approach, benefiting from being user-convenient. As noted by the authors, these neo banks, with personal tools and cost- effective models, can thrive best among urban millennials. However, it should also be pointed out that a primary constraint for full-scale expansion still lies in bank-centric regulatory dependence.[1]

Gupta and Sharma (2022) focused on customer satisfaction and trust factors influencing customer perception towards digital-only banks. Their research indicated that while digital interfaces, 24x7 support, and much less document requirement add to user satisfaction, security, and trust remain niggling issues. They implied that to have long-run customer loyalty, neo banks need to spend on security and grievance redressal, be seamless, and have transparent ways of operation. Also, they indicated that early adopters would likely end up being brand advocates, given continued high levels of experience with services.[2]

A report by PwC India (2021) on the wider fintech space describes neo banks among the very promising disruptors in the Indian financial services sector. Factors attributed to the rise of the fintech sector include positive macroeconomic context, regulatory reforms, as well as shifting customer preferences. It also stressed that neo banks can provide very specialized financial services, targeting the underbanked, without the need for physical infrastructure, thus lowering customer acquisition costs while heightening reach.[3]

Using the TAM model, the authors, Saxena and Jain (2020), applied it to digital financial services to study the factors that fostered trust in neo banks. They established that ease of use, personalization, and security felt were some major predictors, including acceptance of the use of the service. The work emphasized that neo banks have to be least transparent and operationally reliable over time to gain credibility, especially given their being physically non-existent.[4]

KPMG India (2022) focused on the study of Jupiter and other neo banks from India, as said in the report. Apart from this, the report mentioned how Jupiter, through intuitive budgeting tools, zero-balance accounts, and cashback-based customer engagement, succeeded in establishing a millennial-driven banking brand. It highlighted the regulatory ambiguity being a potential hindrance to neo banks, suggesting the necessity of establishing a formal licensing framework for operational independence and clarity. The study also acknowledged the strategic benefits of partnering with legacy banks to bridge the compliance gap.[5]

Patel and Desai (2023) compared conventional banks and neobanks based on customer service and efficiency. According to their research, neo banks are much better than traditional banks in terms of access to digital user experience and responsiveness. The research stated that neo banks would also need to enhance their offerings and make strategic partnerships for long-term sustainable competition in the market, even though traditional banks have a broader suite of products and a higher level of customer trust.[6]

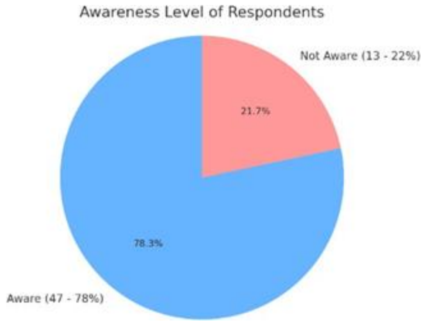
7. ANALYSIS

7.1 Awareness of Neo Banks

A substantial majority of the 60 respondents to the survey—78%—said they were familiar with the idea of neo banking. 22% of respondents said they had never heard of neo banks or did not know how they differed from traditional or digital banks. This suggests that although there are still gaps in awareness, neo banking is becoming more popular among people who are active online.

Awareness Level	No. of Respondents	Percentage
Aware	47	78.3%
Not Aware	13	21.7%
Total	**60**	**100%**

Table 1: Awareness of Neo Banks



Source: *A Survey on Neo Banking Awareness*

Interpretation:

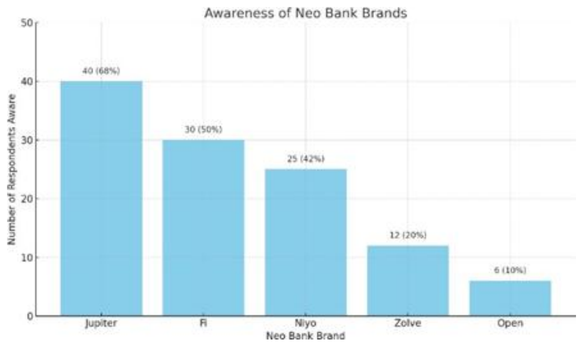
- Majority Aware: A sizable percentage of respondents (46 out of 60), or 78.3%, are aware of the topic or problem under investigation. This suggests that the group has a generally high level of awareness.
- Minority Not Aware: Just 13 respondents, or 21.7% of the sample, said they were unaware.
- Given the high awareness rate, the awareness campaign or current communication strategy seems to be mostly successful.
- The 21.7% who are unaware, nevertheless, still constitute a sizable minority. To fully raise awareness of this segment, more outreach or focused communication might be required.

7.2 Brand Recognition in Neo Banking

Respondents were also requested to specify which neo bank systems they knew about. Of the 68% of respondents who knew Jupiter, it came out on top in brand awareness; Fi (50%) and Niyo (42%) followed. This suggests that Jupiter has a competitive advantage in terms of visibility and digital presence.

Neo Bank Brand	No. of Respondents Aware	Percentage
Jupiter	40	68%
Fi	30	50%
Niyo	25	42%
Zolve	12	20%
Open	6	10%

Table 2:Brand Recognition in Neo Banks



Interpretation:

The bar graph illustrates varying levels of brand awareness among neo banks. Jupiter, recognized by 68% of those polled, leads the list; Fi and Niyo follow closely, indicating a relatively strong market

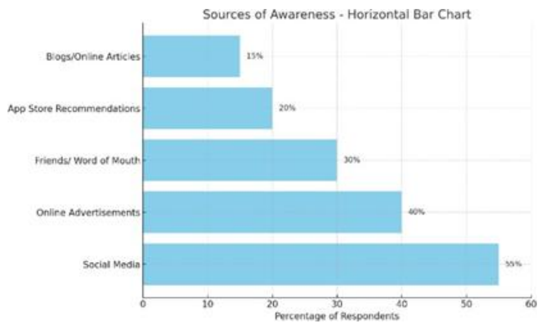
presence. In contrast, Zolve and Open lag significantly behind, suggesting limited outreach or brand recognition. Variations in marketing strategies, user engagement, or geographic reach could account for this difference. Understanding these gaps will enable lower-ranked companies to improve their outreach and positioning.

7.3 Source of Awareness

Knowing how people came to neo banks helps one to see the most efficient means of communication. Reflecting the digital-first marketing strategy of neo banking platforms, most mentioned social media (55%) and online advertisements (40%) as main sources.

Source	**Percentage of Respondents**
Social Media	55%
Online Advertisements	40%
Friends/ Word of Mouth	30%
App Store Recommendations	20%
Blogs/Online Articles	15%

Table 3:Source of Awareness about Neo Banks



INTERPRETATION:

According to 55% of respondents, social media is the most significant source of awareness for neo banks, as shown by the horizontal bar chart. With 40%, online advertisements come next, demonstrating the powerful influence of digital marketing. At 30%, friends or word-of-mouth also contributes significantly, underscoring the importance of first-hand referrals. App Store recommendations (20%) and blogs/online articles (15%), on the other hand, have less sway, indicating a decreased dependence on these sources for finding content.

This implies that the best results for brand exposure might come from combining focused social and digital tactics with initiatives to promote user recommendations.

7.4 Market Competitiveness

Better apps and quicker online services are just two examples of how neo banks have impacted traditional banks to enhance their digital offerings. In this particular context:

- Following the emergence of neo banks, 34 respondents (56%) reported seeing improvements in traditional bank services.
- 19 responders (32%) claimed not to have observed any such shift.
- Seven responders (12%) expressed uncertainty.

In terms of usage preference:

- 39 people (65%) use both traditional and neobanks.
- Thirteen (22%) of the respondents only use traditional banks.
- Eight responders (13%) exclusively use neobanks such as Jupiter.

Interpretation:

The results show that even though neobanks like Jupiter are not yet in the lead, they are revolutionizing the financial industry by increasing access, lowering banking costs, and stimulating innovation. Their greatest achievement has been developing a customer-focused, tech-first banking model that appeals to India's expanding digital consumer base.

Key Challenges faced by Neo Banks

Neo banks provide tech-driven services without the physical infrastructure of traditional banks, operating within a dynamic digital ecosystem. Although this model fosters creativity and efficiency, it also presents difficulties that may affect long-term expansion and operational viability. Based on industry data, expert commentary, and regulatory developments, these challenges are examined in detail in the section that follows.

Regulatory Challenges

The majority of India's neobanks operate in collaboration with licensed NBFCs or scheduled commercial banks, in contrast to traditional banks that follow explicit guidelines set forth by the RBI and SEBI. Key issues are raised by this absence of a direct regulatory license include:

- **Absence of an independent banking license:** Neo banks in India are unable to independently provide full-fledged banking services.
- **Dependency on partner banks:** They rely on traditional banks for backend operations, which limits innovation and control.
- **RBI's lack of clarity:** Despite the RBI's 2022 introduction of digital lending guidelines, there is currently no official framework in place for directly licensing or regulating neo banks.

Cybersecurity Risks

Neo banks are more vulnerable to cyber fraud, phishing, and data breaches because they are exclusively digital platforms. Among the difficulties are:

- enormous amounts of digitally stored financial and personal data.
- Third-party integrations and APIs make a system more vulnerable.
- An increase in fintech-related cyber fraud cases has left users wary.
- In 2022, there were 13.91 lakh cybersecurity incidents in India, many of which targeted online banking.
- Neo banks are increasingly being targeted for attacks as a result of their expanding size.

In the absence of robust security frameworks, breaches have the potential to undermine user trust and harm brand reputations, which can result in lower user adoption and lower revenue.

7.5 Market Potential of Neo Banks in India

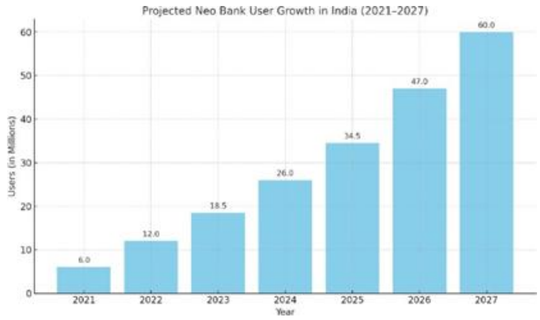
Neo banks are well-positioned to use digital innovation to change the financial landscape of India, particularly among underserved SMEs and tech-savvy urban users. The customer base and service adoption growth trajectory indicate good future.

Based on industry and Statista projections, the following table displays the estimated number of Neo Bank customers in India (in millions) from 2021 to 2027.

Year	Estimated Neo Bank Users (in Millions)
2021	6.0
2022	12.0
2023	18.5

2024	26.0
2025	34.5
2026	47.0
2027	60.0

Table 4: Projected Growth of Neo Bank Users in India (2021–2027)



Interpretation

From 6 million in 2021 to an estimated 60 million by 2027, the graph shows a clear upward trend in the number of neo bank customers in India. Consumer confidence in digital banking and growing digital financial inclusion are reflected in this tenfold growth over the last six years. Strong market expansion potential is indicated by the steady increase, particularly among tech-savvy and urban users. Neo banks' long-term sustainability as competitive alternatives to traditional banking is strengthened by this expansion.

8. KEY FINDINGS

A significant portion of the respondents are aware of the concept of neo banking, though actual usage remains modest, indicating a gap between awareness and adoption. Respondents who have used platforms like Jupiter reported satisfaction with the user interface and service efficiency.

Neo banks have positively influenced financial inclusion by offering app-based, no-frills banking services, especially to digitally literate youth and freelancers. Their operations show promise in reducing operational costs and enhancing market competitiveness, though scale remains limited

The study highlighted regulatory ambiguity, data security concerns, and trust issues as major roadblocks for neo banking sustainability. Lack of direct RBI licensing prevents full-stack banking operations and long-term customer confidence.

With the projected user base expected to exceed 60 million by 2027, and with a favorable digital ecosystem, neo banks hold strong potential. However, their sustainability depends on solving profitability issues and earning user trust through better compliance and personalization.

9. RECOMMENDATIONS

Considering the findings and sectoral experiences, the strategic guidelines that are following are suggested:

- To Policymakers: Put in place a well-defined legal framework specifically for neo banks, which allows for a clearer, more independent, and secure way of operation.
- To Fintech Entrepreneurs: Concentrate on specific customer segments, such as freelancers or part-time workers, students, and SMEs, for efficient growth. Implement AI, customer service, and cybersecurity to increase outreach and protect against threats.
- To Traditional Banks: Either work in partnership with or bring together neo banking models so as to keep hold of younger demographics and decrease operational expenditures through digital channels.

10. CONCLUSION

Neo banks are quickly becoming more and more well-known in India as a cost-effective, scalable, and digitally first alternative to traditional banking. They provide inclusive financial solutions that are suited to the requirements of underserved and tech-savvy communities. Their development as possible competitors to the traditional banking model depends on supportive regulations, ongoing innovation, and the development of robust user confidence. Neo banks can contribute to the development of a strong digital banking infrastructure through strategic cooperation between regulators, FinTech companies, and conventional banks. With the help of safe systems, openness, and customized services, neobanks are in a strong position to influence India's financial future in a way that is more technologically advanced, competitive, and accessible.

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