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## The Future of Branchless Banking: How Digital Banks Are Shaping the Future of Financial Services

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### ABSTRACT

This report looks at how banking is changing, especially with the rise of digital-only banks, also known as neobanks. These banks don't have physical branches you do everything through an app or online. They've become really popular in recent years, especially during the COVID-19 pandemic, when people needed safe and contact-free ways to manage their money.

Neobanks offer the basic services you'd expect, like opening accounts, transferring money, and keeping track of spending. They mostly appeal to younger people who are used to doing everything on their phones. The report also talks about how these banks are shaking up traditional banking, the problems they're facing (like keeping data secure, following financial rules, and earning customer trust), and how they might help people in rural or underserved areas get better access to banking.

It also asks a big question: do we still need physical bank branches, or will they eventually disappear as digital banks grow? While neobanks still have a few limitations, they're improving fast and they're likely to become a major part of how banking works in the future.

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### Introduction

#### *How Banking Is Changing*

Banking has changed a lot in recent years. In the past, if you wanted to open an account, deposit money, or get a loan, you had to go to a bank branch in person. But thanks to new technology, most of these things can now be done online. This change has led to the rise of digital banks, also called neobanks. These banks don't have physical branches at all—they operate completely through apps and websites.

#### *Why More People Are Choosing Digital Banks*

People love the convenience of digital banks because they let you do your banking anytime and anywhere using your phone or computer. These banks are usually faster, cheaper, and easier to use than traditional ones. They're especially popular with younger folks and working professionals who want quick access to their money without waiting in lines. The COVID-19 pandemic pushed this even further, as many people wanted contactless ways to handle their finances.

#### *What This Report Is About*

This report looks at how digital banks are changing the way we do banking by using mobile apps, artificial intelligence (AI), and smart data tools. These banks offer services like opening accounts instantly, transferring money, and tracking spending. Many of them work together with licensed banks, since most digital-only banks in India don't have full banking licenses themselves.

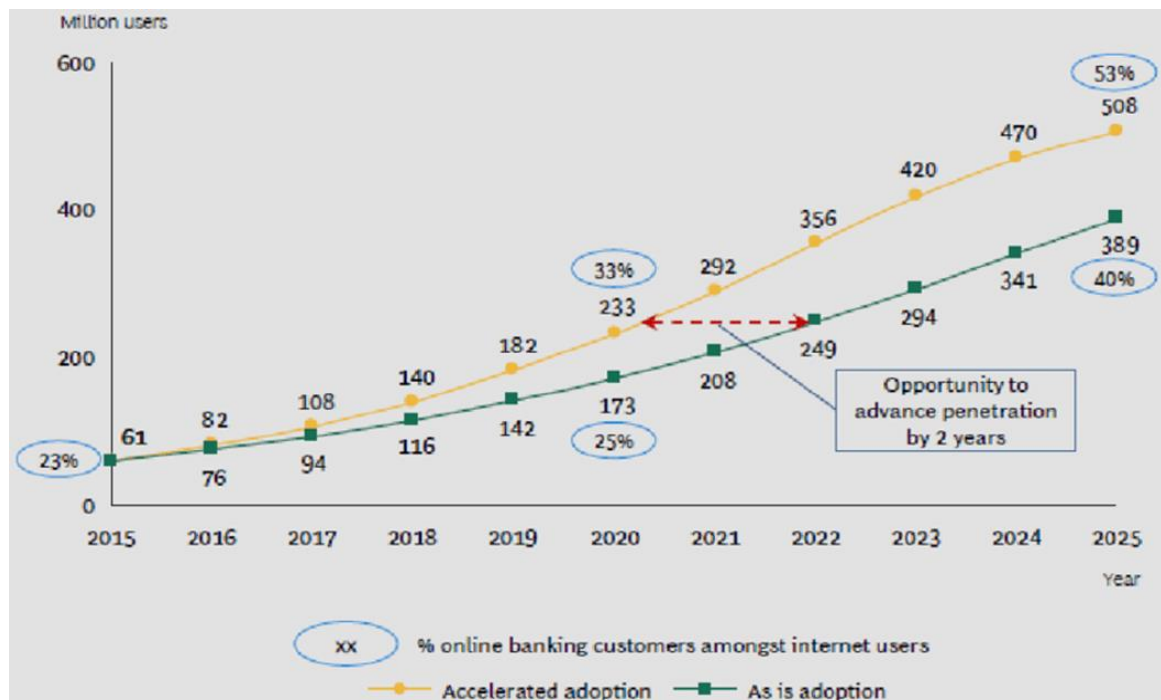
#### *How Digital Banks Help and What They Struggle With*

Digital banks also make banking easier for people in rural and remote areas who might not have a bank nearby. But they still face some problems, like keeping customer data safe, following all the rules, and earning people's trust without having physical branches.

#### *Growth and What the Future Looks Like*

Thanks to better technology and changing customer needs, digital banks are expected to keep growing and make banking more affordable, faster, and easier for more people. As shown in Figure 1, the number of people using online banking in India has gone up a lot since 2016. This growth is due to

more people having smartphones and internet access, plus the desire for banking that's available 24/7. The chart also shows that this trend is expected to continue through 2025, meaning digital banking will only become more popular. (Gupta & Varma, 2019)



**Figure 1: Growth of Online Banking Users in India (2016–2025)**

Source: Gupta, R., & Varma, S. (2019). ResearchGate

## Literature Review

### *How Branchless Banking Has Grown and Evolved*

Branchless banking, especially through digital banks or neobanks, is quickly changing financial services around the world, and India is no exception. According to The Hindu BusinessLine (2023), this change is largely because more people have smartphones, internet access has improved, and customers want banking that's easy and convenient. The COVID-19 pandemic gave this shift a big push, making contactless financial services even more important (PaySpace Magazine, 2023).

### *How Digital Banks Are Changing the Way We Use Banks*

Digital banks work completely online without physical branches. They provide 24/7 access to services like opening accounts, sending money, and managing expenses (PwC India, 2023). These banks use technologies like artificial intelligence (AI) and machine learning to deliver personalized and efficient services, something traditional banks often find hard to keep up with. This tech-driven approach is changing how people interact with their finances.

### *The Rules Digital Banks Have to Follow and the Challenges They Face*

Even with their innovative models, digital banks in India face some serious regulatory hurdles. Since most neobanks don't have full banking licenses, they need to partner with licensed banks to offer financial products (PwC India, 2023). On top of that, data privacy, cybersecurity, and following the rules remain big challenges that could limit their growth and make it harder to build customer trust.

### *How Digital Banks Are Helping More People Get Access to Banking*

Digital banks have a real chance to make financial services available to more people, especially in rural and remote areas where there aren't many bank branches (The Economic Times, 2023). Branchless banking lets users do their banking right from their phones, reducing the need for physical infrastructure and helping more people get access to financial tools.

### ***What Might Happen to Bank Branches as Digital Banks Grow***

As digital banks continue to grow, there's some debate about what will happen to physical bank branches. Some experts think branches might become obsolete, while others believe they'll evolve into centers focused on advice and support, working alongside digital platforms (PwC India, 2023). This kind of hybrid model could give customers both convenience and personalized service.

### ***Recent Numbers and Trends That Show Where Banking Is Headed***

Digital payments in India have seen tremendous growth, with UPI transactions expected to reach 481 billion by FY 2029, showing a clear move toward digital finance (The Economic Times, 2024). Also, online banking users in India are projected to top 300 million by 2025, driven by more smartphones and affordable internet (Gupta & Varma, 2019). These figures highlight how branchless banking is gaining momentum and reshaping the financial world.

### ***Wrapping Up: What the Research Tells Us***

Overall, the literature shows that digital banks are leading a major shift in banking by offering innovative and accessible services that focus on customers' needs. While they still face challenges like regulatory compliance and security, their growth suggests that the future of banking will involve a mix of digital and physical models, with technology playing a bigger role.

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## **Methodology**

### ***Research Design***

This study takes a conceptual approach, relying mainly on analyzing existing data from trusted sources. Instead of collecting new data, it reviews a wide range of literature, industry reports, and publicly available information to understand how digital banks—often called neobanks—are changing the traditional banking scene in India.

### ***Data Sources***

The data used in this study comes from several reliable and well-respected sources:

PwC India (2023) offers valuable insights into the rules and regulations around digital banks. They point out that “Neobanks have the potential to disrupt the Indian banking ecosystem by offering innovative digital-first banking experiences with lower operating costs. However, since they do not possess a banking license, they currently partner with licensed banks to provide regulated banking products.”

The Hindu BusinessLine (2023) highlights how customers are adopting digital banks. They note that “Neo-banks operate without physical branches, providing customers with the convenience of banking anytime, anywhere through mobile apps and online platforms. The increasing smartphone penetration and digital literacy in India have accelerated their adoption.”

Gupta & Varma (2019) document the growth in online banking users in India, showing how “The growth in internet and smartphone penetration has led to a substantial increase in online banking users in India, from approximately 150 million in 2016 to over 250 million in 2019, with projections estimating this number to cross 300 million by 2025.” This helped us understand the trend of more people moving toward online banking.

The Economic Times (2024) provides important stats on digital payments in India. They explain that “Digital payments in India are expected to grow from 159 billion transactions in FY24 to 481 billion by FY29, supported by increased smartphone adoption, affordable internet, and government policies encouraging digital transactions.” This information was useful in analyzing the market and how digital financial services are becoming more important.

PaySpace Magazine (2023) talks about how “Neobanks like Niyo, RazorpayX, and Paytm Payments Bank are changing the way banking services are offered. They focus on providing a fully digital experience and use technologies like artificial intelligence and machine learning to do this.”

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## Results and Discussion

### *How Branchless Banking Is Growing and More People Are Using It*

Looking at the available data, it's clear that branchless banking is growing fast in India, largely thanks to the rise of neobanks. Gupta & Varma (2019) show that the number of online banking users jumped from around 150 million in 2016 to more than 250 million by 2019. They also expect this number to go beyond 300 million by 2025. This growth goes hand in hand with more people owning smartphones and better internet access, not just in cities but also in rural areas.

### *The Way Digital Banks Are Shaking Up Traditional Banking*

Digital banks work without any physical branches and offer their services all day, every day, giving users a level of convenience that wasn't possible before (The Hindu BusinessLine, 2023). According to PwC India (2023), neobanks use AI and machine learning to make financial services more personalized and efficient. In many cases, they provide a better experience than traditional banks. However, since they have to team up with licensed banks due to regulations, their independence and ability to grow can be limited.

### *The Challenges Digital Banks Face with Rules and Security*

While digital banks are moving fast with innovation, they still face big challenges when it comes to following rules and protecting customer data. PwC India (2023) points out that because neobanks must work with licensed banks, their product range can be restricted. Plus, keeping data private and protecting against cyber attacks are crucial for earning and keeping customers' trust.

### *How Branchless Banking Is Helping More People Access Financial Services*

One of the biggest benefits of branchless banking is its ability to reach people in rural and remote areas where traditional banks don't have many branches (The Economic Times, 2023). Mobile banking lets people access financial services right from their phones, cutting down the need for costly physical infrastructure and making banking more inclusive.

### *What Might Happen to Physical Bank Branches in the Future*

Experts don't all agree on what will happen to physical bank branches. Some think branches will become less important, while others believe they'll shift focus to offering advice and support, working alongside digital services (PwC India, 2023). This kind of hybrid setup could give customers the convenience of digital banking with the personal touch of in-person help.

### *Why Digital Payments Are Taking Off So Quickly*

The huge growth in digital payments in India is a clear sign of how fast digital banking is taking off. The Economic Times (2024) estimates that digital transactions will nearly triple, from 159 billion in FY24 to 481 billion by FY29. This growth is driven by government policies, technology becoming more widespread, and people preferring contactless ways to pay.

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## Recommendations for Managers and Practitioners

Based on what this study found, it's clear that digital banks, or neobanks, are becoming a major force in the banking world. For them to grow successfully and gain the trust of their customers, bank managers and industry leaders should consider taking these important steps:

### *Make the Most of Advanced Technology*

Managers should invest in technologies like artificial intelligence and data analytics to make the customer experience better and improve how smoothly operations run. Staying ahead with new tech will help digital banks remain competitive.

### *Stick to Rules and Protect Data*

It's crucial to follow all regulations closely and put strong cybersecurity measures in place. Keeping customer data safe not only builds trust but also protects the bank's reputation.

### *Focus on Financial Inclusion*

Banks should create easy-to-use digital solutions aimed at rural and underserved communities. This will help bring more people into the formal financial system.

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### ***Help Customers Learn and Get Support***

Offering clear guides, tutorials, and responsive customer service will help people get comfortable with digital banking and make their experience more satisfying.

### ***Consider a Hybrid Model***

Keeping some physical branches or support centers alongside digital services can meet customers' needs for personal help while still providing the convenience of online banking.

### ***Build Strong Partnerships***

Working together with licensed banks, tech providers, and regulators can speed up innovation and ensure the bank stays compliant, which benefits both how services are delivered and the bank's growth.

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## **Future Scope of Study and Limitations**

### ***What Could Be Explored in Future Research***

This study sets a foundation for understanding how digital banks are shaping the banking landscape in India. Still, there are several areas where more research would be valuable:

#### ***Understanding Customer Behavior and Trust***

*st:* It would be helpful to dive deeper into how customers view digital banks, what makes them trust these new platforms, and what motivates them to switch from traditional banks.

#### ***Exploring New Technologies:***

With technologies like blockchain, biometrics, and advanced data analytics continuing to develop, there's plenty of scope to study how these innovations could be used in digital banking.

#### ***Impact of Policies and Regulations:***

Since banking regulations are always evolving, future studies could analyze how changes in policies affect the way digital banks operate and shape their strategies in the market.

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## **Limitations of This Study**

While this research offers useful insights, it's important to recognize a few limitations:

***Use of Secondary Data Only:*** This study relies solely on information from articles, reports, and online sources. Including direct feedback from customers or banking professionals would provide a deeper and more detailed understanding.

***Focus on Recent Trends:*** The research mainly looks at developments in the near past, so it may not capture the long-term effects and trends yet to unfold.

***Focus on India:*** Since this study concentrates on the Indian banking system, the findings might not fully apply to other countries with different financial systems or levels of digital technology adoption.

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## **Conclusion**

The growth of digital banks in India is really changing the way people handle their money. With technology improving, more smartphones and internet access, and customers wanting faster, easier options, branchless banking has become a popular alternative to the old-school banks. This study shows how digital banks, especially neobanks, are shaking things up by making banking more accessible, efficient, and affordable for everyone.

Of course, there are still some bumps in the road like dealing with regulations, keeping customer data safe, and building trust when there's no physical branch to visit. But even with these challenges, digital banks are doing a great job of bringing financial services to rural areas where traditional banks don't really reach.

Looking ahead, it seems like the future of banking in India won't be just one thing or the other. Instead, it will be a mix of both digital and traditional banking. As the technology improves and rules get clearer, digital banks will likely become a big part of how people manage their money going forward.

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