

# The Emergence of Neo-Banks: A Disruptive Force in Traditional Banking

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## Abstract:

Neobanks meteoric rise is better understood in context of the digitalization as a whole. The service offered by traditional banks and the modern, tech-savvy expectation of their clients has been significantly reduced because of the influence of neobanks. The support of the society and opinion of customers are crucial for development of Neobanking system. Because of the pandemic simplicity and lack of barriers to entry, Neobanking services were even more attractive to consumers. This study used a stratified random sampling to choose its respondents and exploratory research design for its methodology. Primary and secondary sources are used to accomplish the goals. The study contributes to both academic and practical understanding, informing strategies in the banking and fintech industry to better align with the preferences of consumers in the digital world.

**Keywords:** Neobanks, Fintech, Awareness, Preference

## Introduction:

The banking sector is undergoing a revolutionary shift with the emergence of neo banks, digital entities that operate exclusively in the online realm. This transition challenges traditional banking models, placing a strong emphasis on technology-driven solutions. While the global literature extensively discusses the impact of neo banks on the banking landscape, there is a noticeable research gap in understanding how these changes are perceived and adopted by consumers in the Indian context. The coexistence and interaction between neo banks and traditional banks further add complexity to the evolving banking ecosystem. As India witnesses a positive inclination towards digital banking, it becomes imperative to explore the preferences of the younger demographic and understand the typology of banks emerging in the digital era. Jupiter, Instant pay some of top India's online banks. Due to Reserve Bank of India lack of regulations, digital banks in India must collaborate with Traditional banks to provide their services. Neobanks are financial institutions that operate entirely online and do not have any brick-and-mortar branches. This group of business known as fintech, and its member use technology to bring clients innovation financial services. By offering standardized and user friendly account management experience, neobanks want to shake up the money management industry and compete with the Traditional banks. The idea of challenger bank has evolved if it has only just joined the larger Fintech Industry. Initially challenger bank was described as direct-to-consumer, Internet

With the valuation of USD 118.57 billion in 2023, the worldwide Neobanking market is projected to expand from 2023 to 2030, a Compound annual growth rate of 54.8%. There will likely be a remarkable increase of 53.4%. Traditional banking is threatened by neobanks, often called challenger banks. In India, the new banking industry has seen tremendous growth during the last four to five years. With over 36 organizations vying for attention. It's clear that each bank is targeting a different demographic with its own products and services, which bodes well for their future expansion.

### **Literature Review:**

(Sharma, 2024) Neo banks may offer unique advantages in terms of operational efficiency and asset management. However, they also face unique challenges such as higher volatility and potential inefficiencies in profitability management. Conventional banks, while more stable may need to Innovate and Improve their operational efficiency to compare efficient with neobanks. Neobanking and Conventional banking system may offer unique operational advantages but also face distinct challenges.

(Reepu, 2023) The emergence of neobanks has disrupted the banking industry in India. More and more people throughout the world are starting to think about “banks without branches” and “keeping money without banks” as we approach a fully digital economy. The last category of the financial institution’s in the market is the neobanks. By connecting user to variety of resources that serve as an intermediary between themselves and usual financial educator, it facilitates simple money management. There is zero chance that your clients will experience benefit outages as a result of your use of their services. When you employ their services, you can be sure that your customer will never have service interruption.

(Dr.R.Gupta, 2022) The performance and customer satisfaction levels between traditional banks and neobanks in India. By incorporating surveys from 200 users of both types of banks and conducting interviews with banking experts, the research highlights some interesting contrasts. The findings show that traditional banks excel in trust and brand loyalty, especially among older generations who prefer in-person interactions and have been long-time users of established banks. However, neobanks outperform in areas such as user experience, lower fees, and faster loan processing. The study finds that neobanks attract a younger, tech-savvy customer base, often between the ages of 18-35, who value the convenience of digital-first banking services. Furthermore, the paper delves into the operational differences, showing that neobanks benefit from significantly lower operational costs due to their lack of physical branches, allowing them to offer competitive fees and better interest rates on savings accounts. Meanwhile, traditional banks maintain a loyal customer base due to their long-standing presence, perceived safety, and extensive service range, including personal relationships with bank managers. The study concludes that both traditional banks and neobanks will continue to coexist, each serving different market segments with varying priorities.

(Narang.P, 2022) This paper examines that consumer protections issues surrounding neobanks in India. The research reviews case studies of consumer disputes involving neobanks to highlights the risk associated with digital-only banking services, such as data breaches and fraud. The study argues that while neobanks offer several advantages, including lower cost and convenience, they also pose new risks to consumers that are not adequately addressed by existing regulations. The study conclude that consumer protections will be critical factor in determining the long term success of neobanks in India.

(Jaiswal&Mr.Nilesh, 2022) Consumer Perception of Neobanking in India are examined by the author. Neobanks, which provide more significant administrative than the traditional banks, are discussed, along with its advantages and disadvantages. However, the reserve bank of India has not yet begun giving saving license to neobanks since doing so would be in opposition to the complete digitalization of account management business.

(Vyas&R, 2021) The effects of neo-banks on more traditional banks and the banking sector as whole are discussed in this article. The author gives a synopsis of the neobanks meteoric ascent, discussing their services and business approaches. According to Vyas, neo-banks are upending the banking industry with their customer centric strategies, which prioritize digital channels and novel products. The essay delves into pros and cons of neobanks, including how they may help expand access to banking services and how they might run into problems with regulators. While discussing the banking industry competitive environments, the author emphasis the ways in which traditional banks react

challenges from neo-banks. As a whole, the piece paints a picture of neobanks continuing to shake up the banking industry and traditional banks having to change to keep up.

**Objective of Study:**

- To study the awareness of consumer towards Neo Banking and Traditional banking.
- To study the preference of consumer towards Neo Banking and Traditional banking.
- To study the customer satisfaction level with the services offered by Neo Banking and Traditional banking.

**Research Methodology:**

The Phase of research that outlines how surveys should be conducted is known as research methodology. The process of systematic data collection and analysis of the gathered data serve as the foundation for the validity of the entire research project. The research methodology is the step of research that describes how researchers should conduct the survey. It is a systematic technique to solve the problem. The research design is the technique used to collect answers from the respondents. The descriptive research design and Stratified random sampling methods has been used. The primary and secondary data will be used for the research work. The primary data shall be collected through structured questionnaires, and the secondary data shall be collected through journals. For research 100 samples were taken. For the data analysis excel and shall be used and the study was carried out in Mumbai.

**Data Analysis and Interpretation:**

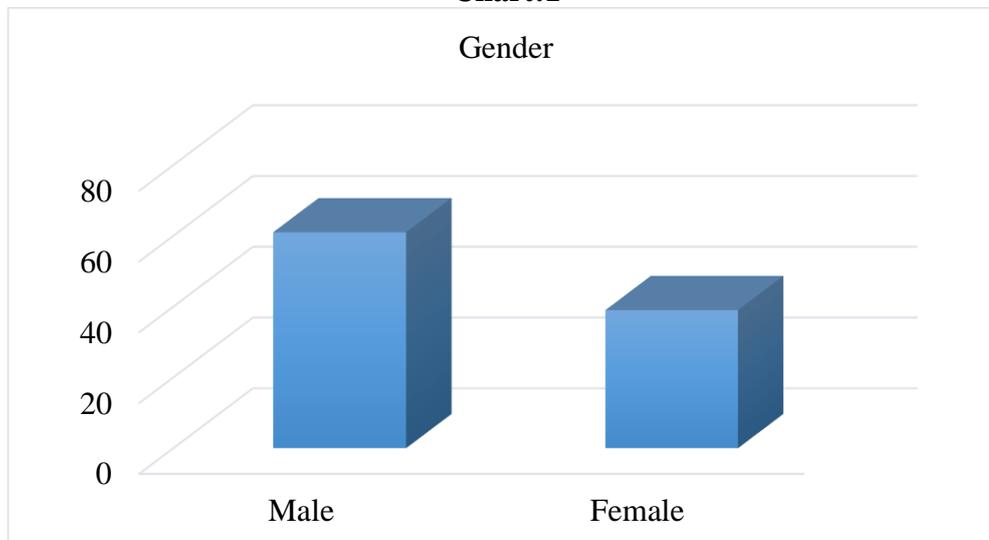
1. Gender

**Table:1**

Male	61
Female	39

**Source:** Survey Data

**Chart:1**



The provided data suggests that, in the context of research on Neo Banking, there is a higher representation of males (61%) compared to females (39%). This distribution indicates a majority of participants being male.

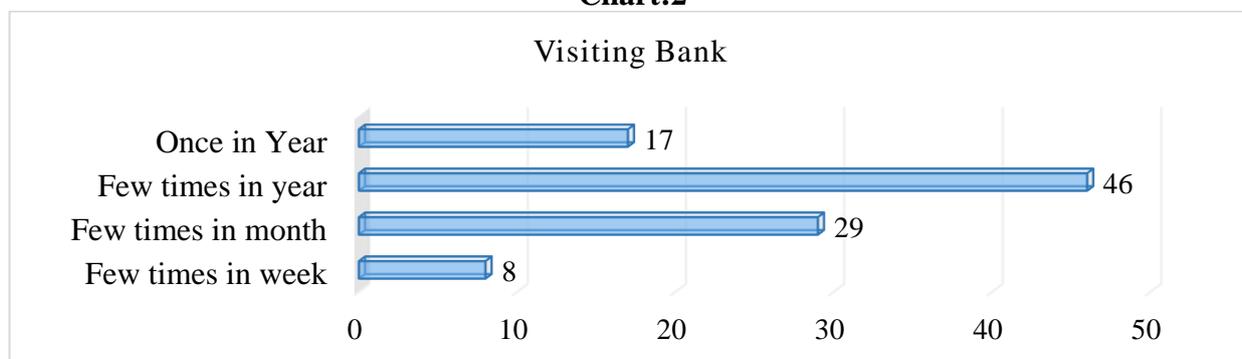
2. you are visiting bank

**Table:2**

Few times in week	8
Few times in month	29
Few times in year	46
Once in Year	17

Source: Survey Data

**Chart:2**



A larger portion of customers, 46, visit the bank on a less frequent basis, only a few times in a year. The smallest group consists of 17 customers who visit the bank only once in a year. This implies that they have very infrequent requirements for in-person banking services and may rely on other channels for their routine transactions. The majority of customers, 29 in this case, visit the bank a few times within a month. This suggests a moderate level of banking activity for this group, possibly related to regular monthly transactions or service.

### 3. Neo Banking offers innovative and modern financial solutions.

**Table:3**

Strongly Agree	24
Agree	26
Neutral	20
Disagree	16
Strongly Disagree	14

Source: Survey Data

The neobanks offering modern and innovative financial solution in which majority of the respondents are convenience with the solution offered by it. The twenty percentage respondents are neutral on financial solution and thirty percentage respondents are disagree on modern financial solution. According to the response received from the respondents seventy percentage respondents are neutral to strongly agree, that shows how neobanks provides better solution to consumers.

### 4. Understand the services provided by Neobanks.

**Table:4**

Strongly Agree	48
Agree	32
Neutral	18
Disagree	01
Strongly Disagree	01

Source: Survey Data

As neobanks are provided the various services to the consumers where they can easily connect with the banking system. Ninety-eight percentage respondents who are fairly know the various services provided by the neobanks. I can say that according to the data, neobanks has provided better services to the customer as per the need of consumers.

**5. Neobanking offers Innovative and Modern Solutions.**

**Table:5**

Strongly Agree	40
Agree	38
Neutral	12
Disagree	06
Strongly Disagree	04

Source: Survey Data

The majority of respondents, constituting 78%, express the neobanks are provide innovative and modern solutions. This reluctance may stem from established trust, familiarity, or a perceived stability associated with Traditional banks. On the other hand, 12% favour Neo banking in neutral side, might believe that there is not that much difference between neobanks and Traditional banks solutions. The minority, accounting for 10%, is drawn to Neo banking for its innovative features, suggesting an interest in cutting-edge financial technologies. Overall, the survey reveals a predominant adherence to Traditional banking practices, with a notable minority acknowledging the appeal of Neo banking's modern solutions.

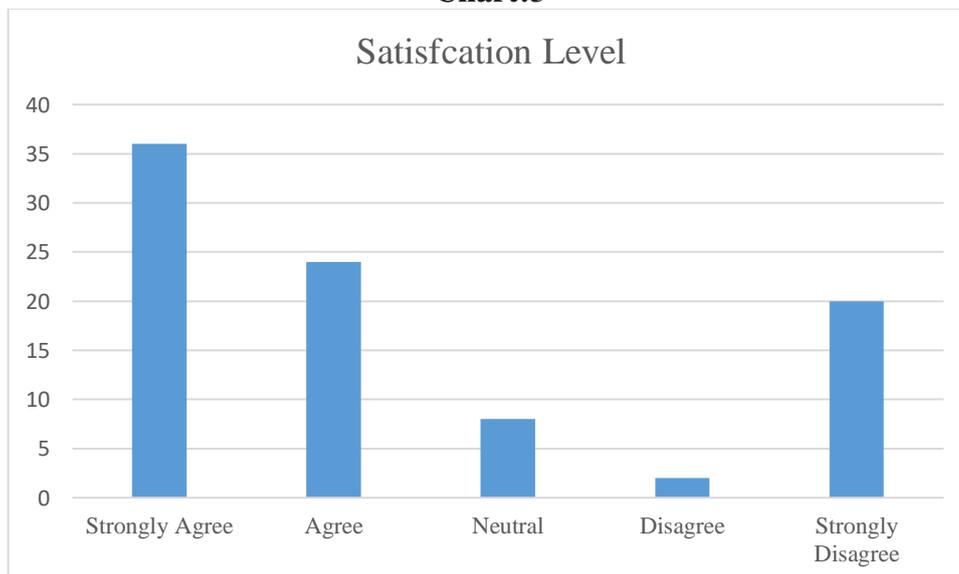
**6. Customer satisfaction level with the services offered by Neo Banks.**

**Table:6**

Strongly Agree	36
Agree	24
Neutral	08
Disagree	02
Strongly Disagree	20

Source: Survey Data

**Chart:3**



The majority of the respondents are satisfied with the services provided by neobanks. Those who are engaged with Neobanking express satisfaction, while twenty-two percentage respondent’s express the dissatisfaction, that shows the room of improvement in Neobanking services. As Neobanking sector continuously evolve, addressing the concern and enhancing services level for improvement. As Neobanking sector enhancing and attracting role in larger user base and Improving overall satisfaction levels.

**7.Neo Banking provides a convenient alternative to Traditional banking.**

**Table:7**

Strongly Agree	38
Agree	22
Neutral	20
Disagree	12
Strongly Disagree	08

Source: Survey Data

The majority of the respondents are in very positive side that neobanks provide alternatives of Traditional banking, while twenty percentage respondents are neutral according to the survey data. Neobanks have to explore the various services effective ways to give very tough condition to Traditional banks. The remaining twelve and eight percentage respondents are disagree to strongly disagree side as neobanks are provide limited services compare to the Traditional banks.

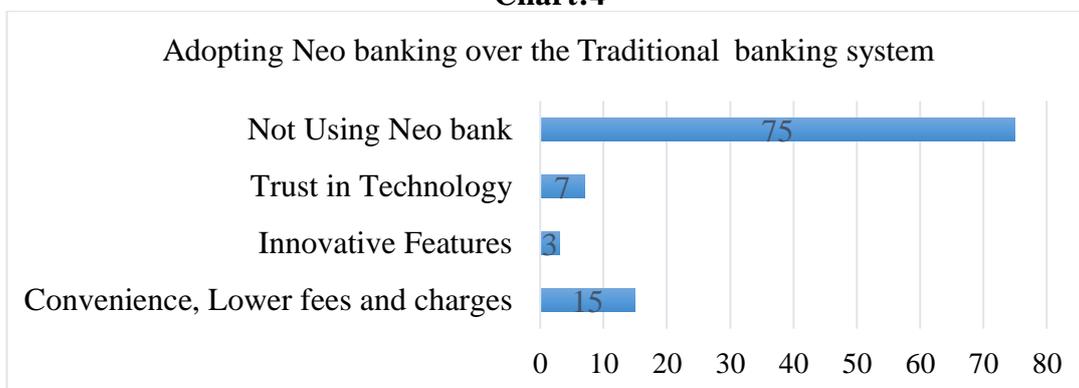
**8.What is your primary reason for considering or Adopting Neo banking over the Traditional banking system?**

**Table:8**

Convenience, Lower fees and charges	36
Innovative Features	24
Trust in Technology	16
Modern solution	34

Source: Survey Data

**Chart:4**



The majority of respondents, constituting 75%, express a preference for not using Neo banks, suggesting a prevailing on Traditional banking systems. This reluctance may stem from established trust, familiarity, or a perceived stability associated with Traditional banks. On the other hand, 15% favour Neo banking primarily due to convenience and lower fees and charges, highlighting the appeal of cost-effectiveness and streamlined services. The smaller 7% contingent places trust

in technology, emphasizing a belief in the reliability and security of innovative financial solutions. The minority, accounting for 3%, is drawn to Neo banking for its innovative features, suggesting an interest in cutting-edge financial technologies. Overall, the survey reveals a predominant adherence to Traditional banking practices, with a notable minority acknowledging the appeal of Neo banking's modern conveniences and cost advantages.

**9. How would you rate the Convenience of Neo Banking Services compared to Traditional banking services?**

**Table:9**

Strongly Agree	24
Agree	26
Neutral	40
Disagree	4
Strongly Disagree	6

Source: Survey Data

The services provided by the neobanks compared to the Traditional banks majority of the consumer are positive with the services provided by the neobanks. This is the very good sign for the perspective of the consumers and all over fintech industry. Only ten percentages of the respondents are in form of Disagree to strongly disagree part in form of services provide by neobanks compared to the Traditional banks.

**10. Traditional banks provide convenient access to banking services.**

**Table:10**

Strongly Agree	48
Agree	14
Neutral	16
Disagree	06
Strongly Disagree	16

Source: Survey Data

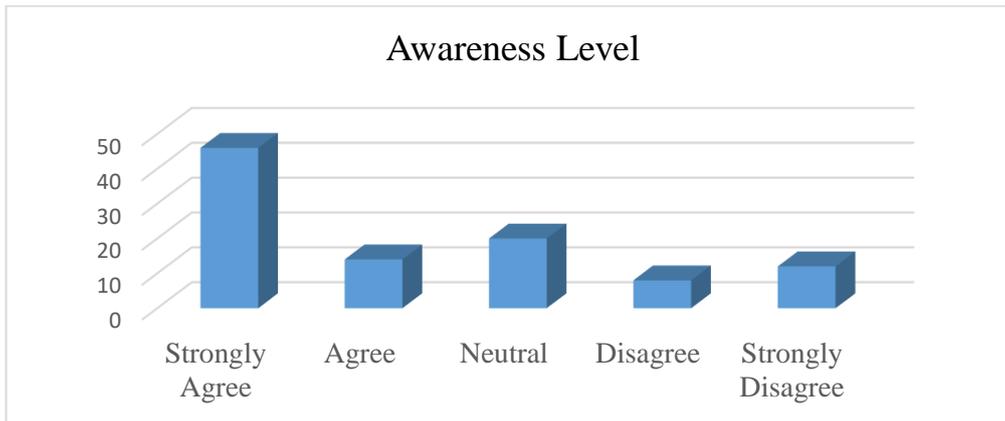
The majority of the respondents are strongly believing that Traditional banking provides very good access to banking services. The sixteen percentage respondents are in neutral that shows uncertainty about the access of Traditional banking services. The twenty-two percentages respondents are saying that Traditional banks are not provide effective services.

**11. Awareness of the various financial products offered by Traditional banks**

**Table:11**

Strongly Agree	46
Agree	14
Neutral	20
Disagree	08
Strongly Disagree	12

Source: Survey Data



It appears that there is significant symmetric in awareness between Traditional banks and Neobanking. Eighty percentage respondents are agreeing that whichever product offered by Traditional banks, they are knowing and aware about it. The lack of awareness of financial products offered by Traditional banks, despite growing presence in financial landscape, underscore a potential gap in communication regarding products and services.

**12. Customer satisfaction with the services offered by Traditional banks:**

**Table:12**

Strongly Agree	58
Agree	20
Neutral	16
Disagree	04
Strongly Disagree	02

Source: Survey Data

It appears that there is significant symmetric in satisfaction between Traditional banks and Neobanking. Eighty-six percentage respondents are agreeing that whichever product offered by Traditional they are satisfied with the services. The lack of satisfaction regarding services, may improve the communication between the clients and services provider. It could help in improving the satisfaction level of Traditional banks.

**Independent Sample T Test:**

Satisfaction Level Between Neo banks and Traditional Banks:

HO: There is no significant difference in satisfaction between the Neo banks and TraditionalBanks.

H1: There is significant difference in satisfaction between the Neo banks and TraditionalBanks.

						T test for EqualityMeans		95% Confidence	
						Means	St. Error	Lower	Upper
						Difference	Difference		
Equal Variance Assumed	.066	0.798	-0.229	98	0.819	-.5437	.23750	.525	.416
Equal Variance Not Assumed			-0.233	69.70	0.817	-.5437	.23371	.520	.411

Source: SPSS Output

Since the p-value is higher than the usual significance level of  $p = 0.05$ , you would not be rejecting the null hypothesis. Assuming equal variances, there is not enough evidence that there is a meaningful difference in satisfaction between these two groups.

Since the p-value is above 0.05, you would not be rejecting the null hypothesis again. There is insufficient evidence that there is a meaningful difference in satisfaction between these two groups when the differences are not expected to be the same.

In summary, based on the t-test results do not have enough evidence to reject the null hypothesis. Therefore, conclude that there is no significant difference in satisfaction between the two groups.

### **Findings:**

- A larger portion of customers, 46 visit the bank on a less frequent basis. 17 customers who visit the bank only once in a year.
- The majority of the respondents are convenience with the solution offered by it. The twenty percentage respondents are neutral on financial solution and thirty percentage responders are disagree on modern financial solution.
- Ninety-eight percentage respondents who are fairly know the various services provided by the neobanks. constituting 78%, express the neobanks are provide innovative and modern solutions.
- The majority of the respondents are satisfied with the services provided by neobanks. Those who are engaged with Neobanking express satisfaction, while twenty-two percentage respondent's express the dissatisfaction, that shows the room of improvement in Neobanking services.
- The majority of respondents, constituting 75%, express a preference for not using Neo banks, suggesting a prevailing on Traditional banking systems.
- The services provided by the neobanks compared to the Traditional banks majority of the consumer are positive with the services provided by the neobanks
- The respondents are strongly believing that Traditional banking provides very good access to banking services.
- There is significant symmetric in awareness between Traditional banks and Neobanking. Eighty percentage respondents are agreeing that whichever product offered by Traditional banks
- There is significant symmetric in satisfaction between Traditional banks and Neobanking. Eighty-six percentage respondents are agreeing that whichever product offered by Traditional they are satisfied with the services

### **Conclusion:**

It can be concluded that in order for the Indian banking system to be able to innovate and strengthen its core, a change of approach from Traditional banking system to digital must be adopted. A neo banking system which operate exclusively on digitally, offers a significant advantage over Traditional banking system. While Neo banks have its own drawbacks, to overcome this long-term safety and security model installation, the customer perception plays a crucial role in the robust development of Neo banking in India. The awareness and understanding of Neo banks needs to be extended to the root level. In addition, the government needs to take all the appropriate steps to regulate and oversee the functioning of Neo banks in order to enable Digital India.

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