

NEO BANKING: AN EMPIRICAL RESEARCH ON AWARENESS AND PERCEPTION OF PEOPLE

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Abstract

In the ever-evolving landscape of finance, neo banking has emerged as a transformative force reshaping how we interact with our money. With the advent of FinTech, the financial sector has undergone a digital revolution, giving rise to innovative services and platforms. At the forefront of this transformation are Neo banks, which are virtual institutions without physical branches, offering digital only financial services through mobile applications. Technological advancements, innovative models and niche customer-focused approach have helped neobanks in creating novel, technology-based platforms and agile business models, and delivering innovative financial services. The current paper focusses on the awareness level of neo banks, acceptability of neo banks by the users and brings out the advantages and disadvantages of neo banks in the light of these responses. For this purpose responses are collected from about 150 people through self-administered questionnaire and analyzed using SPSS software. The results of the research highlight the perception of stakeholders towards neo banks. The paper will also attempt to bring out recommendations on the growth of neo banking in India.

1. Introduction

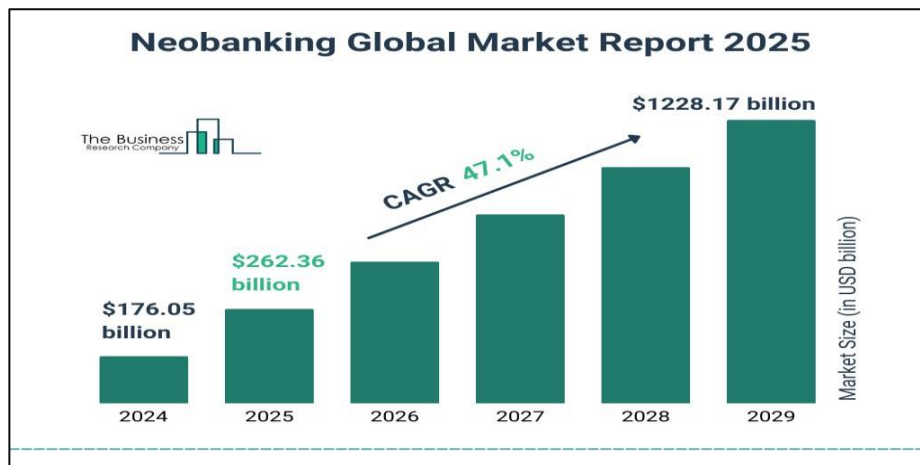
In the ever-evolving landscape of finance, neo banking has emerged as a transformative force reshaping how we interact with our money. With the advent of FinTech, the financial sector has undergone a digital revolution, giving rise to innovative services and platforms. At the forefront of this transformation is Neo banking, a virtual banking experience that has redefined user-friendly finance. Neo banks are virtual institutions without physical branches, offering digital only financial services through mobile applications. Unlike traditional banks neo banks operate entirely online focusing on a mobile-first approach to cater to the tech-savvy generation. Technological advancements, innovative models and niche customer-focused approach have helped neobanks in creating novel, technology-based platforms and agile business models, and delivering innovative financial services. One of the key features of neo banks is their focus on customer experience. They prioritize providing a user-friendly interface, personalized services, and round-the-clock access to financial products and services. Neo banks often offer a wide range of banking services, including checking and savings accounts, loans, payments, investments, and budgeting tools, all accessible through their mobile apps or websites.

2. Background of Study

The working of neo banks is very different from the traditional banks. Europe took the lead in the introduction of neo banks. Later U.S. Canada and other European countries joined the league. Whereas traditional banking was dominated by physical presence, scalability became an issue as the number of branches increases due to high operational costs. The advent of neo

banking thus became popular thereby giving scope for expansion of the banking industry. The maximum growth in the industry was witnessed especially during pandemic wherein the investors realised the potential that neobanks bring to the larger financial services industry. By offering their services at lower interest and giving higher interest rates to their customers they have become largely popular due to their customer friendly banking experience as well as the convenience of banking from anywhere. Currently there are more than 100 neo banks globally. In India alone there are about 20 neo banks. These include Freo, Zik Zuk, Akudo, Finin, Chqbook, Niyo, Mahila Money, RazorPay X, Instant Pay, Fam Pay, Fi Money, Jupiter etc. In India, NEO banks currently do not keep their own banking licenses from the Reserve Bank of India (RBI) and work rather with traditional banks to offer financial services, which means that they are indirectly regulated by these partnerships. Essentially, they offer banking functions via a digital interface, while they rely on banks established for basic banking functions.

Chart 1 – Showing growth of Neo Banking



Source: The businessresearchcompany.com

3.Review of Literature

Neo banks are a relatively newer concept but have received worldwide acceptability due to the convenience and cost factors for the banking industry. They are expected to contribute large to the financial inclusion of the economy. Sabbani(2024) has studied the rise of neo banks against the traditional banking setup and has concluded that although neo banks have placed high priority on data privacy, they are still struggling their way in the Indian markets due to regulatory compliances. The extensive use of technology in the banking industry is there to stay and newer financial products can be created with the use of technology to make the user experience even more pleasant. The neo banks can definitely not replace the traditional banking system but contribute largely towards the growth of the banking industry.

Elroy Monis (2023) in their extensive literature review of neo banking have concluded that the scope of baking in India can be doubled if neo banks are formally introduced. The paper identifies various variables in neo banking through its extensive literature review. Neo banking has a tremendous scope for a better growth and scope for development as new generation needs more technologically efficient solutions as we move closer to full digitization. Neo banks are the best approach to do that as of recent years.

Victor Lindström and Olof Nilsson (2023), in their study "The Sudden Rise of Neobanks and the Threat It Poses upon the Traditional Banking System," analyse the rapid growth of neobanks and their impact on conventional financial institutions. The authors highlight how neobanks leverage digital-first strategies, cost efficiency, and personalized customer experiences to attract a growing customer base, particularly younger and tech-savvy users. They discuss the regulatory challenges faced by neobanks and the competition they pose to traditional banks, which struggle with legacy systems and high operational costs. The study also examines how traditional banks are responding through digital transformation, strategic partnerships, and fintech collaborations. The findings suggest that while neobanks are disrupting the financial sector, their long-term success depends on achieving profitability, regulatory compliance, and customer trust, making their competition with traditional banks both dynamic and evolving.

KavyaShabu (2022) conducted a primary survey of about 500 respondents on social media to understand their sentiments and approach towards neo banking. Most of the respondents were very positive on how neo banking could enable unlocking AI for more potential banking opportunities. The negative aspect that was highlighted was with regard to how providing neo banking services at a cheaper rate would adversely affect the financial sector as a whole where digital banking services would make traditional banking run out of its business for its higher operational costs thereby hampering employment opportunities and economic development.

Priya Raman and Dr. Angad Tiwary (2022), in their report "NEO BANKS: Future of Indian Banking System", analyse the growing influence of neobanks in India's financial landscape and their potential to reshape traditional banking. The authors highlight how neobanks, with their fully digital infrastructure, offer cost-effective, customer-centric, and technologically advanced banking solutions, catering primarily to millennials, SMEs, and underserved populations. The study explores the regulatory challenges in India, where neobanks must operate in collaboration with traditional banks due to the absence of independent banking licenses. It also examines the role of fintech innovations, including AI, blockchain, and data analytics, in enhancing financial accessibility and operational efficiency. While neobanks are driving digital transformation and financial inclusion, the report underscores concerns regarding cybersecurity, profitability, and customer trust. The authors conclude that the future of neo banking in India depends on strategic partnerships, regulatory adaptability, and the industry's ability to balance innovation with risk management.

Ganeshkumar (2022), in his study "Neo Banking: The Future of Banking in India" (January 2022), explores the rise of neo banks as a disruptive force in the Indian financial sector. The author examines how neo banks leverage advanced technology, artificial intelligence, and data analytics to provide seamless, branchless banking experiences tailored to modern consumer needs. The study highlights the increasing adoption of digital banking, driven by smartphone penetration, fintech innovations, and changing customer expectations. While neo banks offer numerous advantages such as cost efficiency, real-time transactions, and personalized financial services, the research also discusses key challenges, including regulatory hurdles, cybersecurity risks, and the need for consumer trust. The author emphasizes the importance of strategic partnerships between neo banks and traditional financial institutions to ensure compliance and sustainability. Concluding that neo banking has significant potential to reshape India's banking landscape, the study underscores the necessity for a robust regulatory framework and continuous technological advancements to drive long-term success.

Dhanraj Jaglan(2021) has analysed the neo banking market and its scalability and concluded that while some have achieved rapid growth, they are still not well known in the mainstream market. The challenge lies in winning the trust of consumers. Experience and reputation are vital aspects for many customers in their choice of bank, so being newcomers to the market, many consumers are hesitant to trust neobanks with their life savings, mortgage or other services. This has posed a question on the long-term sustainability of these banks. The sector has seen many neo banks occurring loss due to lack of revenue. Besides, many traditional banks are beginning to launch their own greenfield digital banks or by investing into Fintechs to improve their customer experience.

Corander (2021) found that Neobanks in UK may have legally questionable practices related with KYC regulation and that opportunities for money laundering through Neobanks should be taken into serious consideration by authorities and legislative bodies. The research which was based on the qualitative and quantitative analysis of neobanks based its research on the opinions of the financial analysts thereby concluding that the future business model, market share and commercial success of Neobanks are difficult to predict, but it can be anticipated that the banking industry will nevertheless face disruptive changes stemming from the widespread adoption of internet technology, rise of cryptocurrencies and the open banking related to EU legislation.

4. Research Methodology

The study is descriptive in nature, wherein researcher has tried to understand the awareness of people towards Neo Banking. Study was conducted in Mumbai city; convenience sampling method and structured questionnaire was used to collect the responses from 150 respondents. Secondary data has been collected from Journals, websites and books. SPSS software has been used and reliability of the questionnaire is checked by using Cronbach alpha test, percentage, mean, ANOVA and chi square test has been used for data analysis.

- **Objectives of Study**

1. To study the awareness of people towards Neo Banking
2. To Know the most important factor people consider for investing in Bank
3. To understand the difficulties faced by people in using Neo Banking services
4. To study the perception of people towards factors affecting decision of using Banking with respect to demographics.

- **Hypothesis of Study**

1. H₀₁ - There is a significant association between age of the respondents and awareness towards Neo Banking.
2. H_{a1} - There is no significant association between age of the respondents and awareness towards Neo Banking
3. H_{o2} – There is a significant difference in the perception of people towards factors influencing their decision of investing in Banks on the Basis of Age.
4. H_{a2} - There is no significant difference in the perception of people towards factors influencing their decision of investing in Banks on the Basis of Age.

5. **Data Analysis**

Table Number 1
Table Showing Age of the Respondent

	Frequency	Percent
18-25	78	52.0
25-40	57	38.0
40-60	15	10.0
Total	150	100.0

Source : Compiled by researcher

Interpretation: Above Table shows that majority of the respondents (52%) belongs to the Age category of 18 to 25 , 38 % respondents belong to the Age category of 25 to 40 and only 10 % belongs to the Age category of 40 - 60

Table Number 2

Table Showing awareness of Respondents towards Neobanks

	Frequency	Percent
Yes	66	44.0
No	84	56.0
Total	150	100.0

Source : Compiled by researcher

Interpretation: Above Table shows that majority of the respondents (56%) doesn't know about Neo Banking

Table Number 3

Table Showing preferences of respondents towards Neobanks and Traditional Banking

	Frequency	Percent
Neo Banking	96	64.0
Traditional Banking	54	36.0
Total	150	100.0

Source : Compiled by researcher

Interpretation: Above Table shows that majority of the respondents (64%) prefer Neo Banking above traditional banking

Table Number 4

Table showing perception of respondents towards necessity of physical presence of bank

	Frequency	Percent
Yes	39	26.0
No	84	56.0
Maybe	27	18.0

Total	150	100.0
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Source : Compiled by researcher

Interpretation: Above Table shows that majority of the respondents (56%) agrees that physical presence of bank is not required as in emergency or any difficulty they would like to meet representative to get clarity and issue resolved so respondents suggested to have one office in physical form of Neo Bank

Table Number 5

Table showing perception of respondents towards Neo Banking has good future in India

	Frequency	Percent
No	12	8.0
Yes	78	52.0
May be	60	40.0
Total	150	100.0

Source : Compiled by researcher

Interpretation: Above Table shows that majority of the respondents (52%) agrees that Neo Banking has good future in India

Table Number 6

Table showing perception of people towards difficulty of using Neo Bank

	Frequency	Percent
Lack of physical presence	69	46.0
Lack of ad-on services	18	12.0
Accessibility	27	18.0
Need for digital knowhow	36	24.0
Total	150	100.0

Source : Compiled by researcher

Interpretation : Above Table shows that majority of the respondents (46%) perceives that major drawbacks of Neo Banking is Lack of physical presence, Followed by Need for digital knowhow, Accessibility and Lack of ad-on services

Table Number 7

Table showing Reliability Analysis of factors respondents consider important for Banking

Reliability Statistics	
Cronbach's Alpha	N of Items

0.804	5
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Source : Compiled by researcher

Interpretation : In the above table the calculated value of Cronbach’s Alpha is 0.804, which shows good internal consistency among the factors under study.

Table Number 8
Table showing Validity Analysis of factors respondents consider important for Banking

Correlations						
		PERSONAL TOUCH	LOWER INTEREST RATE	CONVENIENCE	LOW COST	BRANCH LOCKER
PERSONAL TOUCH	Pearson Correlation	1	0.347**	0.369**	0.401**	0.413**
	Sig. (2-tailed)		0.000	0.000	0.000	0.000
	N	150	150	150	150	150

LOWER INTEREST RATE	Pearson Correlation	0.347**	1	0.520**	0.677**	0.356**
	Sig. (2-tailed)	0.000		0.000	0.000	0.000
	N	150	150	150	150	150
CONVENIENCE	Pearson Correlation	0.369**	0.520**	1	0.663**	0.528**
	Sig. (2-tailed)	0.000	0.000		0.000	0.000
	N	150	150	150	150	150
LOW COST	Pearson Correlation	0.401**	0.677**	0.663**	1	0.580**
	Sig. (2-tailed)	0.000	0.000	0.000		0.000
	N	150	150	150	150	150
BRANCH LOCKER	Pearson Correlation	0.413**	0.356**	0.528**	0.580**	1
	Sig. (2-tailed)	0.000	0.000	0.000	0.000	
	N	150	150	150	150	150

** . Correlation is significant at the 0.01 level (2-tailed).

Interpretation : In the above table the calculated value of significance value is less than 0.000, which shows good validity among the factors under study

Hypothesis : Chi Square test has been used between age and awareness of people towards neo banking to study the association between the two factors under study.

Table Number 9
Table showing Chi-Square Tests

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	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	5.493 ^a	4	0.240
Likelihood Ratio	6.230	4	0.183
Linear-by-Linear Association	0.084	1	0.772
N of Valid Cases	150		

a. 3 cells (33.3%) have expected count less than 5. The minimum expected count is 0.60.

Interpretation: In the above table the calculated significance value of Pearson Chi – Square test is 0.240, which is greater than 0.05, which shows that Null hypothesis is accepted which means there a significant association between the age of the respondents and awareness towards neo banking. It was observed during survey younger people are more aware about neo banking and ready to accept the same.

Hypothesis : ANOVA test has been used between Age and factors affecting decision of using banking services to know the differences in perception of people towards factors

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	18.813	2	9.407	0.898	0.410
Within Groups	1519.295	145	10.478		
Total	1538.108	147			

Interpretation: In the above table the calculated significance value of ANOVA test is 0.225, which is greater than 0.05, which shows that Null hypothesis is accepted which means there a significant difference in the perception of people towards factors influencing their decision of investing in Banks.

**Table Number 11
Table showing Ranking of factors respondents consider important for Banking**

Factors	Mean	Rank
Personal Touch	4.10	5
Lower Interest Rate in Loan	4.58	2
Convenience	4.68	1
Low Costs	4.56	3
Branch Services - Locker, Large loans	4.24	4

Interpretation: Above table shows the factor respondents consider important for banking, as per mean value the most important factor is Convenience, followed by Lower Interest Rate in Loan, Low cost, Branch Services – Locker, Large Loans and Personal Touch.

6. Findings of Study

From the above analysis it can be seen that although there is not complete awareness of the respondents towards neobanking, the respondents are still open towards these banks. With the advent of the digital currency in the Union budget of 2022-2023 it is inevitable that the neo bank are here to grow. However, due to legislation policies and lack of trust of the customers it is still a grey area. The strengths of the neo banks viz. convenience in banking, lower transactional costs etc. definitely have an edge over the traditional banks. However, these cannot substitute the traditional banks which have their physical presence and ad-on services. As of now the neo banks operate in association with the traditional banks as RBI has not issued their separate licenses. However as one can see in the analysis with the younger general emerging as a digital savvy and tech savvy generation the awareness and well as the preference is now drifting towards digital banking solutions.

7. Conclusion

It can be finally be concluded that although Neo banks have created their niche area and contributed positively towards financial inclusion, it still remains a grey area. However, with the growing digitalization and the tendency to speed up the financial transaction the working of neo banks along with the traditional banks almost seems inevitable. The traditional Indian still feels the need for a physical presence especially those in the higher age groups so complete replacement does not seem likely in the near future. Besides transparency and openness in the functioning of neo banks will help reduce corruption and unethical practices. Additionally transaction costs such as processing fees and other fees can be reduced considerably. Neobank is offering its clients a user-friendly interface and a variety of fresh user data. The government will also closely monitor the money that the Neo bank creates and distributes. Neo Bank concentrates on small and medium-sized enterprises in order to support national development at the lowest feasible cost. Since the majority of Neobank clients are able to file their GST returns and other indirect tax returns, Neobank is a good choice for quick payment and collection as well as tax compliance.

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