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RESEARCH ARTICLE

NEO BANKING-EXPLORING OPPORTUNITIES AND CHALLENGES IN THE DIGITAL REVOLUTION

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Abstract

Neobanks have revolutionized the financial industries, resulting in technical innovations for sustainability. They have overturned the established banking structure and altered the financial industry's terrain. The ramifications of digital technology have grown since the Covid period. With India moving towards the cybernetic era, it is interesting to explore the growth potential and the changing landscape of neo-banking in India. Further, the study attempts to analyze the challenges and opportunities of neo-banks in the Indian context and compare services offered by traditional banks and neo-banks. The study uses descriptive research design and relies on data from secondary sources. The top 12 neo-banks in India were examined to determine the opportunities, challenges, and growth in the neo-banking industry. The findings indicate that despite the rising usage of neo-banks, traditional banks are unlikely to be supplanted shortly and both types of banks can coexist.

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Introduction:-

Neo banks have dramatically transformed the financial industry terrain. Often termed as challenger banks or digital banks, these are financial organizations conducting business online without any physical existence (Sardar and Anjaria, 2023). They have transformed the banking sector and led to sustainable technology advancements. They offer numerous banking services, including CRM, payroll, international transfers, account opening, invoicing, and expense management software (Shabu and Vasanthagopal, 2022).

Neo-banking history had its origins in Europe. The US, UK, and European countries are the ones that have created a global foundation for neo-banking today. They are becoming popular because of their cost-effective model (Raman and Tiwary, 2022). Digital banks offer services that are distinct from those of conventional banks. These are a type of digital bank that offers instantaneous money transfers, loans, payments, and other financial services to satisfy the contemporary tech-aware generation's needs (Sardar and Anjaria, 2023). Customers may need to invest a significant amount of time and effort in typical bank transactions. Neo banks add an immersive digital layer to traditional banking, promising a smooth online encounter. Clients can quickly register for accounts and make use of their products due to their technologically advanced nature. They concentrate on meeting their customers' demands quickly and improving the banking user experience (Sardar and Agarwal, 2023). Neo-banks can be classified as standalone neo-banks and front-end neo-banks. A standalone bank operates independently and provides its goods

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and services without collaborating with a conventional bank. Unlike the entire stack or standalone neo-bank, front-end neo-banks lack a banking license. Therefore, to provide the product and services, it must collaborate and form a partnership with a traditional or legacy bank (Sardar and Anjaria,2023). These days, advanced payment systems are taking over and cash payments between businesses are gradually decreasing. The payments industry is being rapidly disrupted by UPI, Neo banks, pure-play digital banks, and others. Neo Bank offers digital services on third-party platforms in collaboration with their partner bank. (Asma et al.,2022). They offer their services to affiliated banks through the core infrastructure layer. Neo banks are compatible with Business to Consumer (B2C) and Business to Business (B2B) modules. IT businesses, MNCs, the travel industry, NGOs, and financial institutions are among the clients they serve (Monis and Pai,2023).

This paper draws attention to the possibility of neo-banks thriving in the Indian neo-banking sector. The study draws a comparative analysis of the services made available by conventional and neo-banks. In addition, the prospects and difficulties faced by neo-banks globally are explored.

The comparison of services offered by traditional banks and neo-banks highlights that while conventional banks offer both online and physical branches, neo-banks operate entirely online. Additionally, conventional banks sometimes hit their clients with a plethora of intricate costs, neo-banks provide extremely cheap fees for their services. They offer a cost-effective model in every aspect. Neo-banks lack banking licenses, whereas conventional banks are properly chartered and licensed. Neo banks are entirely focused on technology, but this focus also eliminates the human element of banking, which is a face-to-face connection with consumers that generates a wealth of innovative product ideas. Neo bank gives its clients access around the clock which is not feasible for conventional banks. Conventional banks use an all-channel strategy having both physical divisions and an online banking presence to provide a broad variety of goods and solutions. On the other hand, neo banks provide digital services completely. Conventional banks offer an extensive array of services, whereas neo-banks only provide limited services. Neo-banks are unable to meet the banking demands of non-technicians or residents of countryside areas because they have received the license for only limited services. (Ziouache and Bouteraa, 2023).

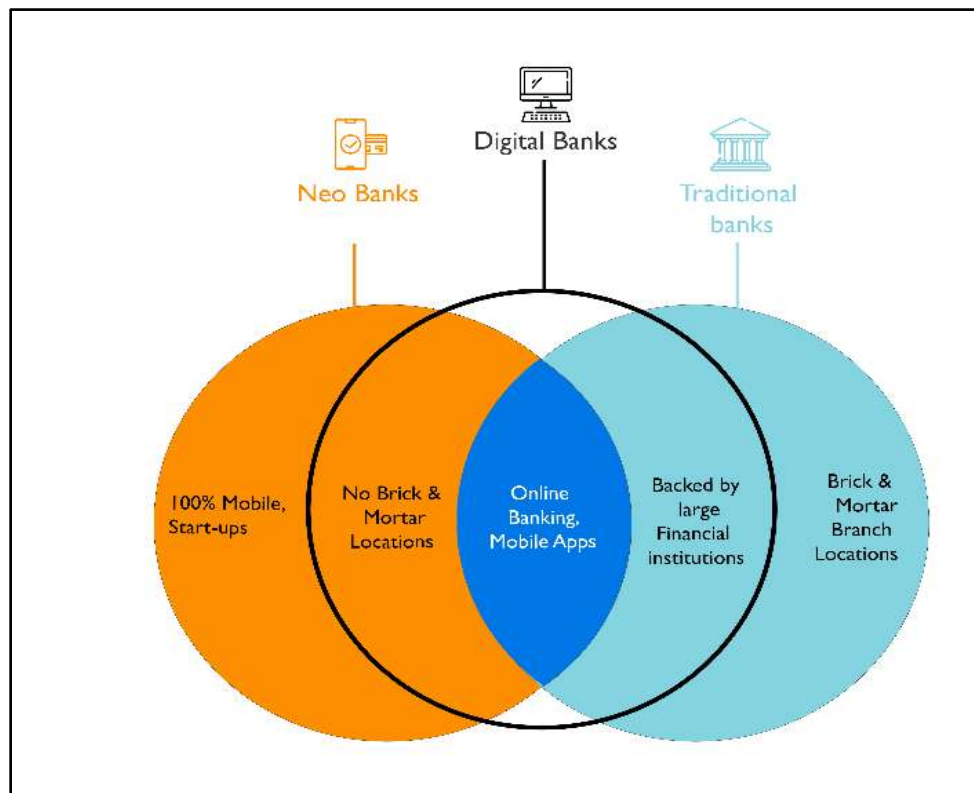


Fig.1.1:- Comparison of Services of Neo Bank, Digital and Traditional Banks.

Source:Crassula (2019)

Over the past four to five years, shifting consumer tastes that place a greater emphasis on digital platforms have revolutionized the banking industry. Later in the future, it is expected that the neo-banking industry will carry on rising. This increase is anticipated to be fuelled by factors like the expanding use of smartphones, the rising demand for online financial offerings, and the ongoing development of fintech infrastructure. It is also anticipated that the growing number of partnerships between neo-industry and traditional banks and financial organizations will accelerate the use of neo-banking services. People who travel abroad regularly, students, tech-savvy millennials, and even those without any financial literacy are among the growing number of clients of neo-banks, as they can now conveniently access their bank accounts via mobile devices while on the go (Asma et al.,2022).

The entire research paper is organized into the following sections. Section 2 offers an insight into the literature review. Section 3 explains the research methodology and objective of the study. Section 4 offers insight into results and discussions, opportunities for neo-banks' future, challenges of neo-banks, and the future and findings. Section 5 outlines the conclusion.

Literature Review:-

Researchers and practitioners have made various efforts to explore the dimensions of neo-banking across the globe. **Wewegeet al. (2020)** demonstrated that access to upcoming fintech trends will increase dramatically over the next several years. The study explained the updates in the digital banking transition in fintech and incumbent financial institutions, the advancements in the regulatory framework of data protection as part of the privacy act and open banking directives continue, digitalized mobile banking transitions highlight the banking infrastructure's capabilities for data sharing, connectivity, stability, and cybersecurity as well as the standardization of internal and external APIs. **Lunn (2021)** discussed the rise of neo-banks and their effect on the conventional banking sector. Neo-banks are digital financial institutions that only provide their services online and do not have any physical locations. And traditional banks must change to remain competitive and revolutionize the banking sector. **Ramanand Tiwary (2022)** explored the neo-bank structure and the future of the Indian banking sector highlighting the contrast between regular banks and neo-banks' offerings. The findings commended the banks for their services stating that these banks demonstrate hassle-free banking. **Temelkov (2022)** explored the factors affecting neo-banks sustainability and development and highlighted the elements influencing the creation and sustainability of neo-banks. The study focused on the features, and characteristics of neo-banks and the causes of the neo-bank closures. Certain nations offer a good atmosphere for neo-banks, while others present an undesirable one. Technological and regulatory developments could provide a fertile environment for the development of neo-mortgage, neo-insurance, and neo-pension. **Shabu and Vasanthagopal(2022)** examined the neo-banking opportunities and challenges from a customer perspective and emphasized the prospects and difficulties that neo-banks confront in the field of neo-banking. The sentiment analysis and content analysis of tweets about digital banking and neo-banking have been the subjects of examination in the research paper. India has a large market potential and is now regarded as the growing nation with the largest market potential. **Agrawal and Yesugade(2022)** examined the thought about neo-banking as a Fintech disruption and the perception study of neo-banking as a fintech revolution. The study attempted to draw comparisons and contrasts between the ideas of neo-banking and mobile wallets. People's perceptions and awareness of neo-banking have been emphasized, and it has been determined that this is the revolution in banking that will occur in the future. People who earlier wished to take advantage of remote banking services now see neo-banking as a blessing in disguise. Neo banks thus also have a significant impact on financial inclusivity. **Barodawala (2022)** examined neo-banking as an innovative window of the banking arena and highlighted the structure of neo-banks. A comparison of operational strategies adopted by India and the global level has been discussed highlighting the expansion of neo-banking in India. Neo-banking seems to be the 'philosopher stone' that will transform conventional banks from their stolid states into opulent financial establishments. **Anuradha (2023)** explored the rise of neo-banking in India decoding growth drivers. There are significant shifts in Indian banking and how Fintech has transformed traditional banking in India, paying particular attention to the development and prospects of neo-banking during COVID-19. **Sowjanya (2023)** explored the new era of financial services in terms of neo-banks. The study reported India's transition to a financial services-driven economy and brought attention to Neo Banks' global expansion. The findings highlighted the comparison between the offering of services with conventional banks versus neo-banks and how neo-banks are becoming more and more well-liked as the way banks will operate in the future. **Monis and Pai(2023)** examined the paradigm shift in banking in terms of neo-banks and discussed the concept of Neo banking. The study used SWOC analysis and analysis of the ABCD Framework to examine the paradigm shift in the clause of banking arrangements to firms and individuals. Further, the distinctions between digital banks, neo-financial institutions, and conventional banks were explored. The findings concluded that the Fintech sector is growing rapidly and Neo banks are anticipated to present outstanding commercial opportunities if

central banks carry out the regulatory framework and regulatory easing. **Sardar and Anjaria (2023)** examined the future of banking and how neo-banks are changing the industry and the ways in which neo-banks have altered the structure of the conventional banking sector. The findings indicate that the replacement of existing banks is unlikely to occur, even though the use of new banks is increasing. In the changing financial market, traditional and neo-banks can coexist and cater to distinct consumer needs. **Ziouache and Bouterra (2023)** explored the conception, challenges, and global practices of the neo-banking system and highlighted the main initiatives, advantages, and difficulties with neo-banks. The study incorporates two additional variables trust and security the TAM model and highlights differences between digital banks and neo-banks, as well as different neo-banking practices across the globe. The findings revealed that in line with the TAM model, trust and secrecy have a direct influence on the acceptance of neo-banks. **Shanti et al.(2023)** explored that following the COVID-19 pandemic, shifts in consumer behaviour have prompted financial systems to undergo reform. Following digital transformation, neobanks become more efficient. Additionally, it may be said that efficiency is influenced by digital transformation and that efficiency and digital transformation have a lasting link. Because the cost of digital transformation first reduces profit efficiency before increasing efficiency, it has a significant negative correlation with efficiency in the short term but a significant positive correlation with efficiency in the long term. **Amon et al. (2024)** explored that Neobanks have a major beneficial impact on environmental sustainability since they consume less paper and require fewer logistics for financial services. They significantly support greater financial inclusion by providing more easily available and reasonably priced banking services, and they also support more inventive and competitive financial markets with their cutting-edge products. They are promoting social inclusion and financial literacy with AI-based technologies. Concerns about the management of electronic trash, possible excessive energy use, the need for digital literacy, and cybersecurity threats are also highlighted. **Khmara and Kapliar(2024)** explored that non-banks are becoming more and more significant in the Swiss financial industry by providing creative solutions and fostering the growth of the digital economy. Professional researchers and analysts, banking institutions, business associations, regulators, and international financial organizations can all benefit from the suggested article. It is anticipated that more research will be conducted in this field to examine the precise effects of regulations on the growth potential of neobanks in Switzerland.

The extant literature review demonstrates that neo-banks do not have any physical presence and there is a significant paradigm shift in the Indian banking system. Neo banks are becoming more and more well-liked because of the services they offer. Though there are various concerns regarding neo banks but still the trend of neo-banks is growing. Certain nations offer a positive environment towards neo-banks and certain nations offer a negative environment.

Research Methodology: -

This study uses descriptive research design to draw a comparative analysis of traditional and neo-banking services. The study relies on quantitative and qualitative data from secondary sources. The top 12 neo-banks in India were examined to determine the opportunities, challenges, and growth in the neo-banking industry. The banks under consideration are Jupiter, Fi Money, Niyo, Ocareneo, Zikzuk, Open, Fenin, Kotak 811, Instant Pay, Razorpayx, North Loop, and Digi Bank. The objectives of the study are as follows:

- 1) To examine the Neo-bank industry's growth potential in India.
- 2) To compare services provided by conventional banks and neo-banks in India.
- 3) To investigate the opportunities and difficulties faced by neo-banks in India.

Results and Discussion:-

The growth potential of neo-banks has been analysed in terms of transaction value and number of users. The market volume of neobanks worldwide was estimated at 4.96 trillion U.S. dollars in 2023, making a notable increase compared to the previous year. According to Statista, the transaction value is expected to show a compound annual growth rate of 13.15 % between 2024 and 2028, resulting in a projected value of 10.44 trillion U.S. dollars by 2028. (Statista, 2025).

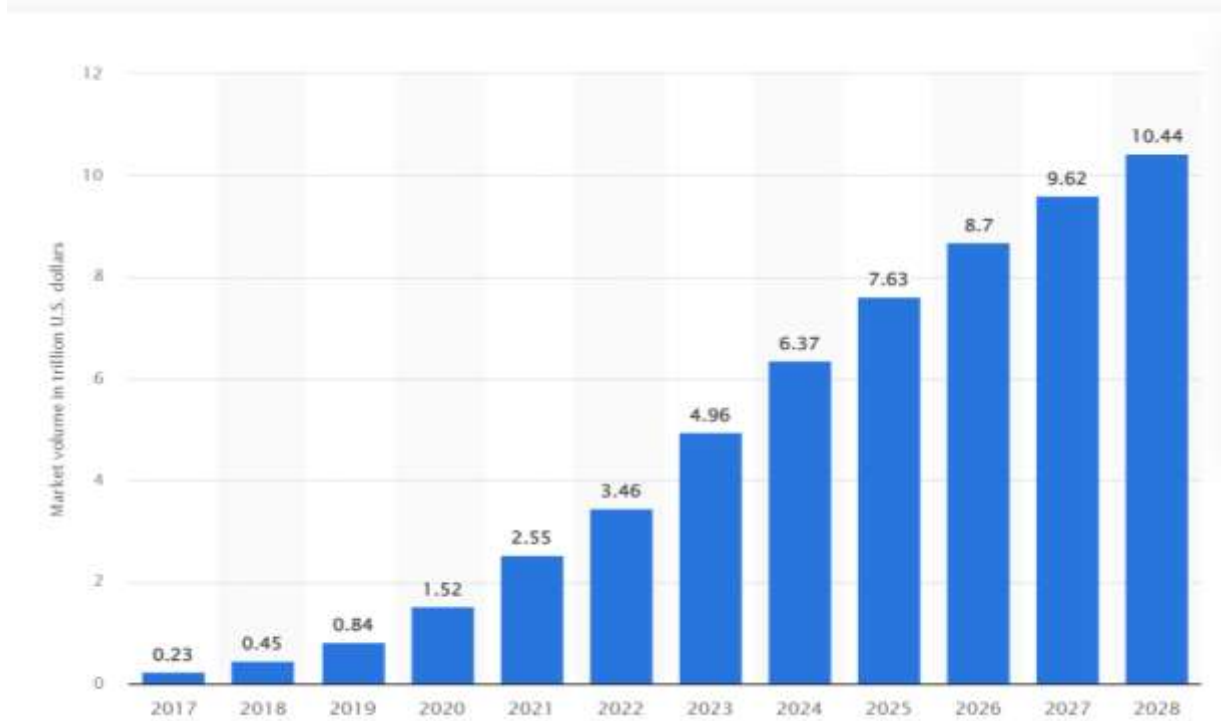


Fig 1.2:- The transaction value of neo banks worldwide from 2017 to 2023, with forecasts from 2024 to 2028 (in billion U.S. dollars).

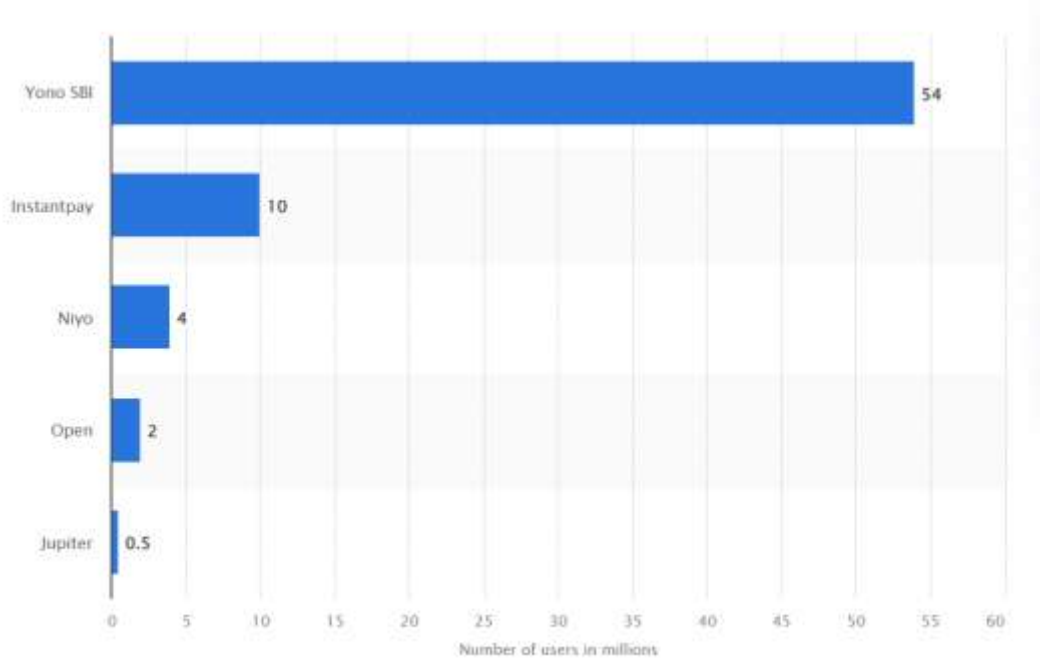


Fig 1.3:- Leading neo banks in India 2022,by number of users.

As of year 2022, State Bank of India's digital arm Yono had around 54 million active users, the highest in the neo-banking sector. Instant pay is followed by 10 million users. Neo-banks are fintech firms that offer apps and software to offer personalized services while minimizing operating costs. Licensing depends on traditional banks and core backend operations are also managed by banks. (Statista,2025).

Opportunities of Neo banking

India is heading into the cyber age. Globalization and digitalization are the two main drivers of neo-banking growth. Neo banks are growing because of their low-cost business strategy, which charges no monthly fees at all or very little for banking services. They have been successful because of several factors, including increased consumption, the use of innovative technology by millennials and MSMEs, as well as people with irregular incomes and earnings.

Neo Banks lets users manage most of their banking requirements 24/7 online or using a computer app, eliminating the need to visit a branch. Earlier customers used to stand in long queues to perform banking operations and banking transactions. They offer no-fee customer accounts and financial services. Since certain neo-banks do not check credit history, your account is more likely to be approved if you have had previous account cancellations. The providers do not have to pay for office maintenance because they do not have any physical branches, and some of them pass the savings on to their customers. They offer resources to help with budgeting and money conservation. They deliver nearly real-time cross-border payments, chatbot-assisted round-the-clock customer care, and automated accounting, budgeting, and treasury services powered by AI and ML. They facilitate quick transactions and have lower fees than traditional banks. Almost perfect, or at least reduce human error to a minimum, because all system transactions are automated (Shabu and Vasanthagopal, 2022).

Challenges of neo-banking

Neo banking has a lot of drawbacks. Every project has specific constraints. For the most part, COD is the favored method of payment at the payment gateway. The security of their money is one of the primary worries of consumers with respect to all online and mobile transactions. The absence of branches renders the interaction somewhat impersonal and devoid of a human element. The lack of human interactions makes certain transactions complex. Because neo-banks are not authorized to do banking business, they cannot provide all the advantages of a typical bank. Less stringent customer onboarding procedures can encourage fraudulent activity, particularly considering how simple it is for tech-savvy and dishonest people to create false identities or exploit stolen ones to open several accounts. For many customers, moving money and transferring funds online appears like a risky choice (Shabu and Vasanthagopal, 2022).

Future of Neo banks

The globe and the BFSI sector have changed more quickly in the last two years than they have in the previous decades combined, and this trend is probably going to continue. During the upheaval, Covid 19 offered the Finance/BFSI business enormous opportunity. Undoubtedly, the pandemic's final two years pushed individuals to stay inside, forcing banks and other financial organizations to reevaluate their operational procedures.

The traditional retail banking environment has become even more demanding because of the consequences of the pandemic. Most conventional banks lacked the know-how to transition their offline services to digital ones. It prevented traditional banks from evolving due to their rigid foundations. Fintech solutions started to gain popularity with customers. Customers might use these to link their bank accounts and handle all their financial needs in one location. The last two years have seen a massive increase in neo-banks. There were around 250 neo-banks in the world in 2019. According to The Financial Brand's neo-bank tracker, by 2021, the numbers have topped 333. The previously observed tendencies demonstrate the promising future that neo-banks hold. Neo banks will surely advance to the point where they can be viewed as a substitute for conventional banks. Neo banks, on the other hand, will undoubtedly be those conventional banks' partners that make money by providing services to the underprivileged (Monis and Pai (2023), Stobdan and Kumar (2023)).

The findings of the paper are that Neo Bank has a promising future. Because the benefit outweighs the drawbacks, their future is bright. Several factors influence the growth of neo-banks. These variables function differently depending on the country and the situation.

The main conclusions are that there is a lack of financial inclusion and illiteracy among citizens in developing nations like India. Neo banks and traditional banks will coexist; they cannot entirely replace one another. Neo banks can work together with traditional banks to lessen their workload and conduct business more profitably and efficiently. India's new face is its neo-banks. As time goes on, new innovations will merge with them, bringing with them an increasing number of challenges. The upcoming upheaval in the financial sector is called neo-banks. They have enormous potential in terms of growth rate, volume of transactions, average transaction value, number of users, and investments both domestically in India and abroad. We witnessed the epidemic era when the old banking system

failed and neo-banks were a source of hope. Thus, the challenging period gave rise to a new banking revolution. However, if privacy, security, and neo-banking regulations are addressed, these major obstacles can be overcome. They can meet all the requirements needed to lead Indian banking in the future. Managing complex technology, security issues, and privacy issues will be the key hurdles.

Conclusion:-

Neo banks are becoming more and more well-liked because they provide several benefits and chances. The RBI has not granted these banks a full license. Even though neo-banks have a lot of disadvantages, these can be solved provided security and privacy issues are taken seriously while implementing them. It is still unclear how Neo Bank will develop—whether it will eventually completely replace the current banking system or work in tandem with it. Due to the widespread use of smartphones, internet connectivity, and financial literacy, people nowadays are better educated and have greater access to financial services through neo-banks. Neo banks' purview has expanded.

The Fintech sector in India is growing quickly because of advancements in the field. Neo banks have fundamentally altered the financial industry's terrain. Neo banks have an abundance of space to grow. They present a variety of obstacles in addition to opportunities. The difficulties must be addressed with the appropriate regulatory framework.

Neo banks are starting to take center stage in the financial sector. They have accurately pinpointed the disconnection between customer needs and the offerings rendered by conventional banks. When it comes to security, privacy, and regulatory compliance, neo-banks fall short. But it also means increased dependence on technology and internet connectivity. There are still many who do not have reliable internet connections or the necessary skills to navigate through online platforms effectively. Furthermore, in the absence of proper regulations, neo-banking carries with it the potential risks of fraudulent activities or misuse of customer data. Nevertheless, they represent the financial industries' future despite their shortcomings. Our research indicates that while the number of neo banks is rising, conventional banks are probably not going to be replaced anytime soon. In the changing banking landscape, new and traditional banks can coexist and meet varied consumer needs.

Neo-banking can be used to supplement actions taken to address the problems associated with financial accessibility. Neo-banks could grow by gradually adding additional features and services, starting with smaller goals. Whether the market is adequate depth for them to enlarge enduringly and fairly has not yet been determined. It is impossible to predict with certainty what will happen to them in the long run. Regulations, privacy issues, and security considerations must all be addressed that is to be faced in terms of the new face of the banking industry. Without question, neo-banks have a broad reach. The rural populace and, in the past, the unbanked population took advantage of their services. Because of them, the notion of "neo banks" is novel to some people however, it is becoming more and more well-liked globally considering the benefits they provide over the conventional financial industry. Lastly, they play a pertinent role in the expansion of both the global and Indian economies.

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