

The Rise of Neo-Banks and the Adaptation of Traditional Banks

Mr. Surpalsinh Rathod^{1*}, Dr. Neelam Purey²

¹*Research Scholar, GLS University, Ahmedabad, Gujarat, India, surpalrathod190@gmail.com

²Principle and Compliance Officer Purple Sigma, IFCS Pvt Ltd, Gift SEZ, Gandhinagar, Gujarat, India, npurey1977@gmail.com

Abstract

Neobanks meteoric rise is better understand in context of the digitalization as 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 article states neobanks are the future of banking as we know it.

Keywords: Neobanking, Fintech, Knowledge, Preference.

Introduction

Payments, Insurance and investing are just few sector where more and more individuals are turning to digital solutions, thanks to the explosion of e-commerce. Neobanks are a special kind of online bank. They go by lot of names, Including Internet only banks, digital banks and online banks. They provide services comparable to traditional banks and are accessible via a mobile app. They do not have any physical location as they are entirely digital. A novel sort of financial institutions that relies on digital technology is known as a challenge bank, neo banks or digital banks. Instead of having any brick and mortar facilities, these banks are providing their financial services via mobile app or online. 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 conventional banks to provide their services.

(Ms. Sonali Sahai¹Research Scholar, Dr. Shefali Dani, & Ahmedabad, Gujarat., 2025) The UK was the early adopter of neo bank, India too has picked up the pace and is now standing alongside the leading developed countries in the adoption of neo banks. Neo banking industry in both countries is evolving at a fast pace, striking a balance between innovation and regulation of their respective countries. There is still a huge untapped market that needs to be catered to in both countries' presenting a bright picture of this industry. While the regulations to encourage industry growth are already in place in developed countries, it is still a wait-and-watch game for neo bankers in India, as it will shape the entire future of this industry in India and provide a real picture of where neo banking stands in the coming years in India.

(Mishra, 2023) Customers are more likely to have faith in a digital banking system if they think it to be secure, efficient, confidential, convenient, user-friendly, dependable, and capable of delivering on the obligations and promises made to them.

Neobanks are financial institutions that operate entirely online and do not have any 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 conventional banks. The idea of a new bank has evolved if it has only just joined the larger Fintech Industry. Initially the new 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 remarkable increase of 53.4%. Conventional banking is threatened by neobanks, often called challenger banks. In India, the new banking industry has been tremendous growth during the last four to five years. With the 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

(Brown, K. , & Mark , 2025) Fintech and neobanks are revolutionizing how banking is being done today. Banking has come a long way over the last fifty years. Innovation and technology advancements are the key to what brought us fintech and neobanks. This innovation gives neobanks and fintech a competitive advantage over traditional banks and will also drive future innovation. This technology and customer experience is marketed to younger generations as an alternative to traditional banks. By competing on customer experience, cost efficiency, and innovation, fintech and neobanks are challenging traditional banks and shaping the future of banking. The continued integration of AI, cryptocurrency, and Banking-as-a-Service will further transform the financial landscape, leading to a more dynamic and collaborative industry. But that doesn't mean there won't be risks. Cybersecurity will be an ever-present risk that could shut down an online bank; other risks such as market and regulatory risks must also be managed.

(Reepu &R, 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 facilities 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.

(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.

(George, 2022) The rise of neobanks has been a revolutionary force in the banking industry. Due to the platforms abundance of useful features, dealing with conventional banks and their customer has become simpler. Conventional banks must transform into neobanks to meet the new standard of instant gratification. Due to the transparency of the working process, corruption is reduced. This will lead to a decrease in other transaction prices, such as processing prices. By providing its customer with wealth of new data and an intuitive interface, Neobanks is aiming to streamline processes. The government would also closely monitor the distribution and availability of neobanks fund. One of the best ways to help the country progress without braking banks.

(Rajsee Joshi, Ritika , & Shraddha, 2019)As far as customer satisfaction is concerned with respect to technology adaption there is variability in satisfaction of customers with ATM services. Overall results suggest that customers are dissatisfied with the no. of services offered through ATM by public sector banks. For phone banking there seems to be no variability in the satisfaction level of private and public sector banks. Results suggest that majority of the customers are neutral with respect to this service provided. For mobile banking and internet banking services there seems to be variability in the satisfaction level of private sector and public sector banks. Results suggest that private sector banks seems to offer better mobile banking and internet banking services as compared to public sector banks. Specifically, customers had issues with the website freezing while transacting with public sector bank.

This paper examines the impact of digital payments on traditional banking in Ahmedabad, revealing a shift towards digital methods due to convenience, security and user experience. Younger customers and professionals lead the adoption payments while older and less digitally literate individuals continue using traditional banking. Regression analysis shows that age, income and payment frequency influence satisfaction with digital payments. Bank managers emphasize concerns over cybersecurity, customer adaptability and infrastructure development. While digital offerings must be enhanced, traditional banking services remain vital for certain demographics and complex financial services. The research highlights the importance of a balanced approach urging banks to embrace digital transformation while maintaining robust traditional services to meet evolving customer needs and stay competitive.

(Dr.Anurad, 2022)The rise of digital platforms was on fully display during the pandemic, when regular trips of banks institutions were out of the questions owing to lockdown restrictions. For those seeking remote banking services, Neobanking has been a godsend. More than 40% Increase in digital payments has been seen, paving way for Neo banking. Neo bank may still form partnerships with other banks that have physical branches even if it has not yet received permission from RBI. Most respondents have adaptable wallets and find it beneficial to use them, according to study of vital facts.

(Temelkov, 2020) The financial technology industry has shaken up the banking sector with its innovative use of technology to offer banking services: Fascinatingly, Innovative technology has opened the door of banks to provide financial services in more adaptable and efficient manner. Because of this, new banking models have emerged, and these banks are slowly but surely disrupting the financial markets and old banks cozy niches.

(Pius&Dr.R.Velmurugan, 2020-21) placed emphasis on location of neobanks development and organization structure in relation with Indian culture. It was the first Bengaluru based start

up to have partnership with SBM, according to some estimates. According to the research, traditional banks in India had negative growth rate of 8.18% between 2019 and 2020, while India growth rate was 33.33%. This was greater than the worldwide growth rate of 16.06%. (Priya&DrAnand, 2022) The Neobanking model is giving the Indian banking industry a fresh look. They are absolutely right about the gap between what consumers want and what traditional banks provide. Their services ensure that consumers are provided with impeccable assistance. On the top of that, they promise customer transactions that is hassle-free. In current age of digital banking technology, these Neobanks have challenges in setting up business in India because to RBI strict regulations.

(Kavya Shabu&Vasanthagopal, 2022) There has been shift in banking industry, which has been good for digital payments like net banking and for pandemic caused by coronavirus. From the client perspective, they try to understand the scope of Neobanking in India, including its potential and limitations. There was a lot of praise for the study, according to the neobanks users.

(Dokania, 2020)Neobanks will rule the banking sector in the future. It bridges the gap between the customers and traditional banks and provides a variety of services to make banking easier. In this digital age, when everyone wants their job done fast and without waiting around. It is essential to convert traditional banks into neo banks. It helps reduce corruption since working process is transparent. It will also help lower other transitions expenses such as processing fees and others. New customer data and effort to make transactions easier are being introduced by neobanks. They help those who would otherwise be able to purchase or have access to traditional banking services by making services more widely available and inexpensive.

(Dr.Neha, 2023) The research says that consumer attitude, perceived usefulness, perceived ease and trust are shown be positively related with it. customers are most faith in digital banking. It found that favourable correlation between trust and digital banking security. This is due the fact that digital users may finalize the deals with digital technology without ever sees other party income, personal age, monthly income and education are positively correlated with digital banking.

Objective of Study

- To study the awareness of consumers towards Neo Banking and Conventional banking.
- To study the preference of consumers towards Neo Banking and Conventional banking.
- To study the perception of Neo banking and Conventional banking system.

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 magazines and journals. For research 100 samples were taken. For the data analysis excel shall be used and the study was carried out in the

selected metro cities of India.

Data Analysis and Interpretation

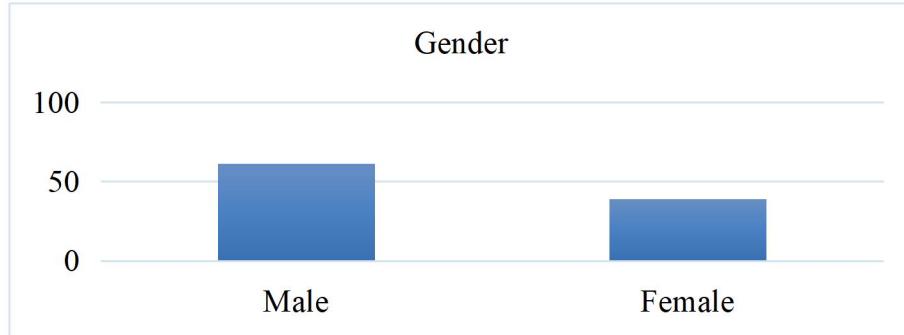
1. Gender

Table: 1

Male	66
Female	34

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 (66%) compared to females (34%). This distribution indicates a majority of participants being male.

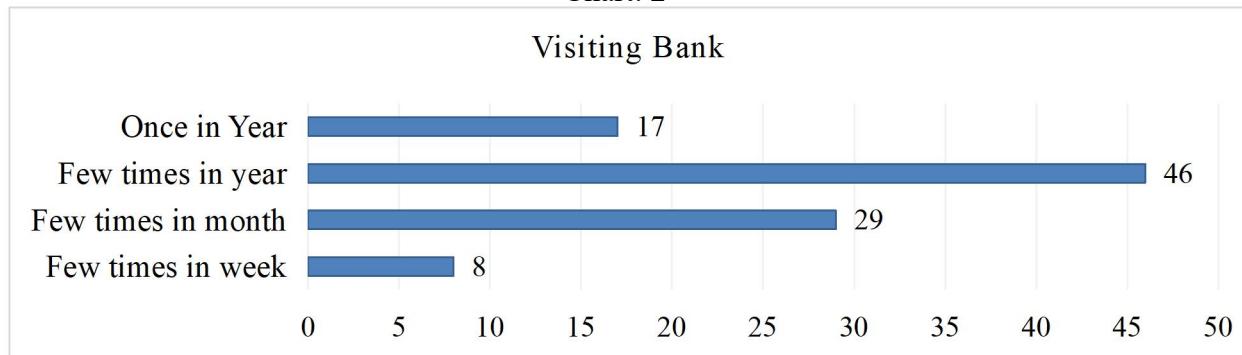
2. You are Visiting Bank

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 respiondrt 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 conventional banks. On the other hand, 12% favour Neo banking in neutral side, might believe that there is not that much difference between neobanks and conventional 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 conventional banking practices, with a notable minority acknowledging the appeal of Neo banking's modern solutions.

6. Neo Banking Provides A Convenient Alternative To Conventional 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 conventional 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 conventional banks. The remaining twelve and eight percentage respondents are disagree to strongly disagree side as neobanks are provide limited services compare to the conventional banks.

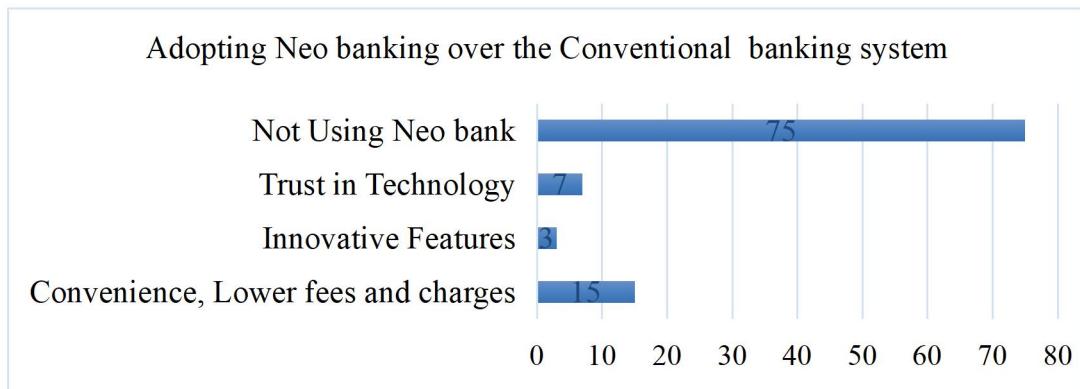
8. What is your primary reason for considering or Adopting Neo banking over the conventional banking system?

Table: 8

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

Source: Survey Data

Chart: 3



The majority of respondents, constituting 75%, express a preference for not using Neo banks, suggesting a prevailing on conventional banking systems. This reluctance may stem from established trust, familiarity, or a perceived stability associated with conventional 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 conventional 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 conventional 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 conventional 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 conventional banks.

10. Conventional Banks Provide Convenient Access To Banking Services

Table: 10

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

Source: Survey Data

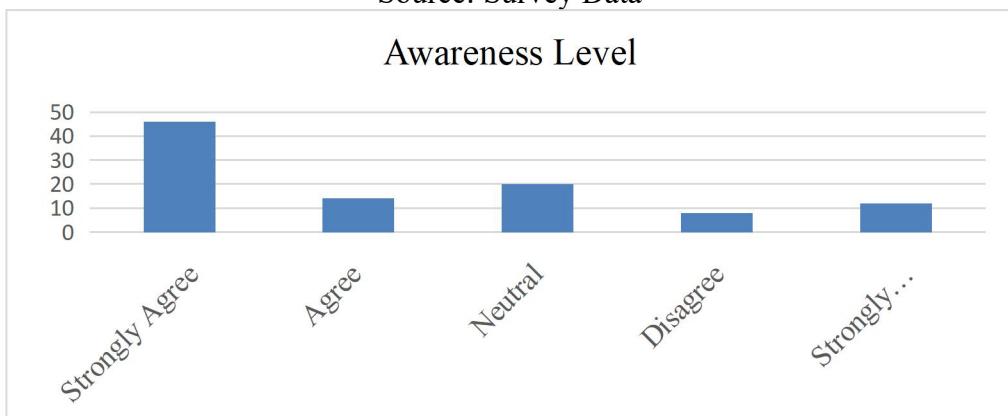
The majority of the respondents are strongly believing that conventional banking provides very good access to banking services. The sixteen percentage respondents are in neutral that shows uncertainty about the access of conventional banking services. The twenty-two percentages respondents are saying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

11. Awareness Of The Various Financial Products Offered By Conventional 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 conventional banks and Neobanking. Eighty percentage respondents are agreeing that whichever product offered by conventional banks, they are knowing and aware about it. The lack of awareness of financial products offered by conventional banks, despite growing presence in financial landscape, underscore a potential gap in communication regarding products and services.

Independent Sample T Test

Preference Level Between Neo banks and Conventional Banks:

HO: There is no significant difference in preference between the Neo banks and Conventional Banks.

H1: There is significant difference in preference between the Neo banks and Conventional Banks.

	F	Sig.	T	DF	Sig	Means Difference	St. Error Difference	Lower	Upper
Equal Variance Assumed	0.066	0.798	-0.229	98	0.819	-0.5437	0.2375	0.525	0.416
Equal Variance Not Assumed			-0.233	69.7	0.817	-0.5437	0.23371	0.52	0.411

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 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 preference 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 preference between the two groups.

Awareness of Neo Banks:

HO: There is no significant difference in awareness of Neo Banks between the two groups.

H1: There is a significant difference in awareness of Neo Banks between the two groups.

	F	Sig.	T	DF	Sig.(2tailed)	Means Difference	St. Error Difference	Lower	Upper
Awareness of NeoBanks	4.503	0.36	-.533	98	0.595	-.082	.154	-.387	.223
Equal Variance Assumed									

Equal Variance not assumed			-.588	86.8	0.558	-.082	.139	-.359	.195
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Source: SPSS Output

The p-value (0.595) is greater than the significance level of 0.05. We fail to reject the null hypothesis. There is no significant difference in awareness of Neo Banks between the two groups when equal variance is assumed. The p-value (0.558) is greater than the significance level of 0.05. The p-value (0.558) is greater than the significance level of 0.05 when equal variance is not assumed.

Based on the t-test comes about for both scenarios there's no critical distinction in awareness of Neo Banks between the bunches being compared. The awareness levels show up to be comparative, and any observed differences are likely due to random chance. It's important to note that the p-values in both cases are higher than the commonly utilized significance level of 0.05, indicating that we don't have sufficient proof to reject the null hypothesis.

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 respondents, constituting 75%, express a preference for not using Neo banks, suggesting a prevailing on conventional banking systems.
- The services provided by the neobanks compared to the conventional banks majority of the consumer are positive with the services provided by the neobanks
- The respondents are strongly believing that conventional banking provides very good access to banking services.
- There is significant symmetric in awareness between conventional banks and Neobanking. Eighty percentage respondents are agreeing that whichever product offered by conventional banks

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 conventional banking system to digital must be adopted. A neo banking system which operate exclusively on digitally, offers a significant advantage over conventional 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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