ORIGINAL RESEARCH PAPER

Commerce

AN EMPIRICAL INVESTIGATION OF CUSTOMERS' PERCEPTION TOWARDS NEO-BANKING IN INDIA

KEY WORDS: Neo-banking, Digitalization, Fintech, Sustainable development and Consumer's perspective

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ABSTRACT

The present paper is an endeavor to investigates consumers' perception towards neo-banking, a fully digital banking model that operates without physical branches, in contrast to traditional banking systems and aims to explore the scope and potential of neo-banking in India by using a structured questionnaire, data were collected from 250 respondents with experience in both banking models. The analysis focused on key factors such as usability, security, cost-efficiency, and satisfaction. The findings revealed growing consumer preference for neo-banking due to its convenience and lower costs, though concerns remain around service limitations and security. Further, the present study offers insights for financial institutions and policymakers to support the adoption and regulation of digital banking in India. The study highlights the key drivers of digital banking adoption and examines the challenges neo-banks face in reshaping the financial landscape.

INTRODUCTION

The modernization of the banking sector has introduced a wide array of financial products and services aimed at enhancing customer convenience and meeting market demands. Over the past two decades, traditional banking has evolved significantly with the integration of digital technologies and core banking systems. Banks are now recognized for offering diverse utility services, beyond just deposit acceptance and loan provision. This transformation has allowed banks to expand market share and stay competitive in a rapidly changing financial environment. Innovations like NEFT and RTGS have made banking transactions more efficient, enabling settlements within a single working day or, in some cases, within 3-4 business days.

Neo-banking, a fully digital banking model without physical branches, has emerged as a major innovation. Initially conceptualized in Europe, it has been widely adopted in regions such as the UK, the US, and other European countries, with over 100 neo-banks operating globally (Shettar & Samiti, 2021). The rise of digital banking is crucial for economic growth, particularly in emerging markets like India. The surge in digital transactions post-demonetization and during the COVID-19 pandemic has established India as a key market for neo-banking (Rup et al., 2018). Studies show that over 60% of Indian consumers prefer digital payments, highlighting the potential of neo-banking (Samanta, 2018). It is essential to examine the opportunities and challenges of neo-banking from the perspective of Indian consumers.

Industry forecasts suggest that neo-banks could replace up to 40% of traditional bank branches by 2032. The global neo-bank market, valued at $18.6 billion in 2018, is expected to reach $394.6 billion by 2026 (Aggarwal, 2020). Additionally, Asia is becoming a strategic market for fintech expansion, further strengthening the region's influence in global financial technology (Aggarwal, 2020).

The structure of a neo-bank comprises three essential components (Aggarwal, 2020):

- Core Infrastructure: Neo-banks rely on partnerships with traditional banks, using payment gateways to connect with established financial systems.
- B2B/B2C Modules: These interfaces deliver financial products and services to both individual consumers (B2C) and businesses (B2B).
- Customers: Neo-banks serve a diverse range of clients, including sectors like IT outsourcing, travel, e-commerce, education, marketplaces, and NGOs, catering to both businesses and individuals.

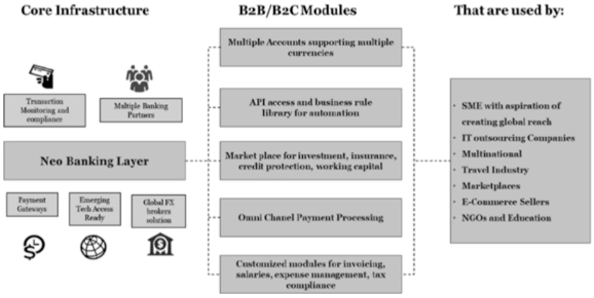

Fig 1: Structure of Neo Banks (Nilesh Jaiswal, 2023)

Neobanks earn primarily through net interest (90%) and technology services, with a smaller share (10%) from fees and transactions. Their growth has been notable in the US, UK, Australia, Europe, and India since 2017, with key players shaping the sector's development. Notable international examples include:

1. Up Bank (Australia): A mobile-only bank, launched in 2018, owned by Bendigo and Adelaide Bank.
2. Xinja Bank (Australia): An independent neobank offering services such as home and personal loans.
3. 86 400 (Australia): A neobank operating under an Authorized Deposit-Taking Institution (ADI) license.
4. Revolut (UK): A rapidly growing neobank with a 43% market share increase and a high trust score of 4.7.
5. N26 (Germany): A leading neobank with operations across Europe, though it ceased operations in the UK after Brexit.

In India, key neobanks include:

1. Yono (SBI): A mobile-first platform offering a range of banking services.
2. NiYo: A solution for salaried employees, providing services like payroll management and financial planning in collaboration with Upwardly.
3. InstantPay: A platform catering to small and medium-sized enterprises (SMEs) offering a variety of financial products and services.
4. 811 (Kotak Mahindra): A digital banking app offering benefits such as shopping discounts and online payment offers through partners like Flipkart.

Neo-banks are revolutionizing banking with digital solutions like easy account setup, fee-free international payments, real-time transactions, AI tools, and innovative savings. Challenges include limited products, security risks, and regulatory uncertainty. Ongoing innovation is key for customer retention. The Reserve Bank of India (RBI) recognizes neo-banks in digital banking's fourth sector but has adopted a cautious regulatory stance, slowing adoption (FE Bureau, 2021).

Review of Literature

Neo-banking drives digital transformation in banking (Komarov & Martyukova, 2020). Минарченко and Сайко (2018) explore its features, challenges, and growth. In India, growing digital payments and users make it a key market for expansion (Dokania, 2019; Samanta, 2018).

1. Murinde, V., Rizopoulos, E., & Zachariadis, M. (2023) explored the dual nature of the FinTech revolution, highlighting both opportunities (efficiency, customer service) and risks (regulatory, cybersecurity), advocating for a balanced adoption approach.
2. Thomas, R. (2022) examined neobanks' digital-first model, emphasizing their cost efficiencies and streamlined user experiences, alongside challenges from reliance on traditional banks.
3. Jaiswal, N. (2023) analyzed Indian neobanks' operational traits, focusing on regulatory compliance and consumer trust and acceptance in the market.
4. Monis, E., & Pai, R. (2023) discussed how neobanks are disrupting the sector with digital-first approaches, exploring technology's role in enhancing consumer trust and simplifying banking.
5. Omarini, A. E. (2023) proposed a digital open banking approach, emphasizing API-driven ecosystems to improve customer engagement and competitiveness.
6. Gnanakumar, B., Subramanian, U., & Baby, M. K. (2023) evaluated Indian neobanks' customer effort scores and ESG values, highlighting the need for improved security and trust.
7. Bradford, T. (2023) questioned whether neobanks' reliance on third-party collaborations limits their potential as fully autonomous financial institutions.
8. Galazova, S. S., & Magomaeva, L. R. (2023) investigated the transformation of traditional banks to compete with digital-only institutions, emphasizing operational efficiencies of digital-first models.
9. Sloboda, L. Y., & Demianyk, O. M. (2023) provided a global outlook on the prospects and risks of FinTech, stressing the importance of addressing regulatory gaps and cybersecurity risks.
10. Maity, A., & Mukherjee, S. (2023) focused on marketing strategies for Indian neobanks, emphasizing digital branding, customer engagement, and trust-building to enhance adoption.

Research Gaps

Despite the growing corpus of global literature on Neo banks, empirical investigations focusing specifically on the Indian context remain limited. Existing literature highlights factors like convenience and cost-efficiency as key adoption drivers (Raghav Aggarwal, 2020), but overlooks India's unique challenges, such as trust, security, and regulatory concerns. As India continues to advance as a digital economy, understanding consumer adoption of Neo banking is crucial. The present study addresses this gap, offering valuable insights into the factors shaping Neo banking adoption in India and its implications for the financial sector.

Research Objectives

1. To analyse the consumers' perspective on neo banking over traditional banking.
2. To examine how neo-banks are disrupting traditional finance and reshaping the industry.

Research Methodology

A descriptive research design was used to analyze consumer perceptions and behaviors toward neo-banking, focusing on digital banking trends and its disruptive impact. Primary data was collected through a structured questionnaire with closed-ended and demographic questions, assessing user preferences, satisfaction, and banking experiences. A pilot study ensured questionnaire reliability and anonymity. The target population included consumers with experience in both traditional and digital banking, including neo-bank users. Purposive and convenience sampling methods were employed to select a sample of 250 respondents.

Data Analysis and Interpretation

Descriptive statistics summarized consumer preferences and perceptions towards neo-banking, while the Mann-Whitney U Test was used to assess age-based differences. Data analysis was conducted using SPSS and Excel.

Table 1: Age and Neo-banking Adoption

Awareness about Neo Banking Services				
		No	Yes	Total
Age Group	18-25	18	90	108
	26-35	9	68	77
	36-50	12	25	37
	Above 50	20	08	28
Total		59	191	250

Table 1 depicts that younger respondents (aged 18–25) showed a higher inclination toward using and recommending neo-banking services, indicating strong digital adoption in this age group. In contrast, traditional banking remains the preferred choice among respondents aged 50 and above, reflecting a generational divide in banking preferences.

Table 2: Gender and Neo-banking Adoption

Awareness about Neo Banking Services					
		Type of Bank Preference			Total
		Traditional Bank Account	Neo-Bank Account	Both	
Gender	Male	53	45	77	175
	Female	38	25	12	75
Total		91	70	89	250

Table 2 exhibits thar both male and female respondents displayed a strong preference for digital banking; however, male respondents are notably more receptive to adopting neo-banking solutions, reflecting a greater openness to innovative, technology-driven financial services.

Table 3: Occupation and Online Banking Usage

Occupation and Online Banking Usage Crosstabulation						
		Occupation and Online Banking Usage				Total
		Daily	Weekly	Monthly	Rarely	
Occu-pation	Businessmen	105	12	9	6	132
	Self-employed	2	6	1	2	11
	Salaried Employee	28	8	10	9	55
	Students	2	13	3	9	27
	Retired	5	3	2	6	16
	Others	5	2	2	0	9
Total		147	44	27	32	250

Table 3 portrays that professionals and businessmen confirmed significantly higher usage of online banking services compared to students, underscoring their greater reliance on digital financial tools for managing operational and transactional demands, whereas students may engage less due to limited financial activity or exposure.

Table 4: Trust in Neo-Banks Across Age Groups

Trust in Neo-Banks Across Age Groups Crosstabulation						
		Trust in Neo-Banks Across Age Groups				Total
		Neo banks will redefine digital banking in India	Neo banks will coexist with traditional banks	Neo banks will remain a niche segment.	Neo banks may lack long-term viability.	
Age Group	18-25	27	102	22	14	165
	26-35	07	06	12	10	35
	36-50	09	05	02	09	25
	Above 50	05	04	09	07	25
Total		48	117	45	40	250

The Table 4 highlighted the younger respondents showed strong confidence in the future of neo-banking, driven by greater digital engagement, while older respondents remain skeptical due to concerns over security and the absence of physical branches. These factors highlight a generational divide in the adoption of digital banking solutions.

Descriptive Statistics Analysis

Descriptive statistics were used to compute the mean and standard deviation of key variables, providing insights into the variability of consumer opinions:

Table 5: Descriptive Statistics Analysis

	N	Mean	Std. Deviation
Age Groups	250	1.54	.971
Gender	250	.27	.444
Occupation	250	1.10	1.503
Educational Qualification	250	1.14	.512
How long have you been using banking services	250	2.45	.828
How often do you visit a Bank Physically	250	.80	.959
What type of bank account do you primarily use	250	1.01	.967
How often do you use online banking services	250	.64	1.013
Would you like to open a bank account with minimal or no fees?	250	1.11	.931
Are you aware of neo banking services	250	.69	.465
Are traditional banks adapting well to technology?	98	.94	.719
How likely are you to recommend neo-banking to others?	152	.77	1.029
Do you believe neo banks are disrupting the financial in dust?	250	.96	.710
How do you feel about the long-term future of neo banking?	250	1.20	.875

The table 5 portrays positive perceptions towards neo-banking, with younger consumers more likely to recommend it. However, responses vary across age groups, reflecting divergent views on its disruptive impact. While there is general optimism about neo-banking's long-term viability, older respondents expressed concerns, particularly about security and the lack of physical branches. These findings underscore the need to address generational differences and security concerns to enhance acceptance.

Mann-Whitney U Test Analysis

The Mann-Whitney U test was conducted to assess whether there are significant differences in consumer perceptions regarding neo-banking across different age groups.

Table 6: Mann-Whitney U Test Analysis

Variable	Mann-Whitney U	Wilcoxon W	Z-Score	p-value (Asymp. Sig. 2-tailed)	Interpretation
Likelihood of Re-commending Neo-Banking	91.400	4186.500	-5.060	0.000 (Significant)	Age significantly affects the likelihood of re-commending Neo-banking.
Belief in Neo- Banks Disrupting Finance	793.000	903.000	-0.584	0.559 (Not Significant)	No significant difference among various age groups in believing neo-banks are disrupting finance.
Perception of Neo-Banking's Long-Term Future	520.300	7065.500	-2.966	0.003 (Significant)	Age significantly affets how people feel about the long-term future of neo-banking.

Chi-Square Test Analysis

The Chi-Square test was conducted to determine whether there is a statistically significant association between age group and key consumer perspectives on neo-banking.

Table 7: Chi-Square Test Analysis

Statistic	Age Group vs. Likelihood of Recommending Neo-Banking	Age Group vs. Belief in Neo-Banking's Disruptive Potential	A. Age Group vs. Long-Term Future Perception of Neo-Banking
Pearson Chi-Square	61.109	11.528	64.204
Degrees of Freedom (df)	12	6	9
p-value (Asymptotic Sig. 2-sided)	0.000 (Significant)	0.050 (Marginally Significant)	0.000 (Highly Significant)

The table 7 showed a statistically significant association between age and the likelihood of recommending neo-banking services ($p < 0.05$), indicating varying levels of endorsement across age groups. The relationship between age and the belief that neo-banking disrupts the financial industry is marginally significant ($p = 0.050$), with limited variation across age cohorts. Age has a stronger impact on perceptions of neo-banking's long-term future, with younger consumers more likely to support its expansion. These findings highlight age as a key factor influencing both endorsement and future outlook of neo-banking, suggesting targeted strategies are needed to address generational differences.

CONCLUSION

The study highlighted a generational divergence in neo-banking adoption: younger, digitally fluent users are significantly more likely to adopt these platforms, valuing speed, convenience, and affordability. In contrast, older users show resistance due to concerns about data security, absence of physical infrastructure, and limited trust in digital-only banking. Trust remains the most influential determinant, with traditional banks retaining an advantage due to institutional credibility. Although neo-banks offer innovative, user-centric services, adoption is constrained by persistent concerns over privacy, fraud risk, and regulatory uncertainty. The long-term viability of neo-banking hinges on seamless integration with traditional banking systems, enhanced cybersecurity, and targeted financial literacy initiatives. A hybrid banking model, merging fintech agility with legacy trust, is essential for scalable, inclusive growth. Hence, future research should investigate strategic differentiation among neo-banks, the behavioral effects of regulatory evolution, and the potential of AI-driven personalization to deepen user engagement and trust.

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