



# International Journal of Research in Finance and Management

P-ISSN: 2617-5754  
E-ISSN: 2617-5762  
IJRFM 2023; 6(1): 63-68  
[www.allfinancejournal.com](http://www.allfinancejournal.com)  
Received: 05-01-2023  
Accepted: 15-02-2023

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## Neo banking

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**DOI:** <https://doi.org/10.33545/26175754.2023.v6.i1a.520>

### Abstract

The emerging financial paradigm termed "neobanking" has replaced conventional bank branches with digital banking services. Through the integration of contemporary technology, artificial intelligence, and intuitive mobile interfaces, these banks provide services such as expedited account setup, instantaneous transactions, expenditure tracking, and customized financial management. Competitive pricing, ease of use, and tailored banking solutions offered by Neobanks appeal to many small enterprises and technologically adept millennial. In an increasingly digitalized financial landscape, neobanking significantly transforms client experience, access to financial services, and competitiveness.

**Keywords:** Neo banking, digital banking, financial technology, finch, mobile banking, financial inclusion, customer experience, banking innovation, digital transformation, AI in banking

### Introduction

The evolution of the digital banking industry has produced neobanking, a technology-driven, customer-centric alternative to conventional banking methods. Neobanks are exclusively online financial institutions that use advanced technologies such as big data, cloud computing, and artificial intelligence to automate and enhance consumer financial services. Online banks provide consumers and small companies expedited account registration, minimal transaction fees, and real-time financial oversight. Innovative banking methods, known as neobanking, are transforming the financial system by providing access to banking services in underserved and rural regions. Neobanks are addressing a need and gaining traction as the population of unbanked citizens increases in developing nations such as India.

### Objectives of the study

- To investigate neobanks and their functionalities in comparison to regular banks.
- To consider how technology has enabled neobanks to manage their operations and expand.
- To assess, from the perspectives of banks and customers, the advantages and disadvantages of neobanking.
- To evaluate the influence of neobanks on the digital economy and financial inclusion.
- To ascertain the level of trust and satisfaction among Neobanking customers.

### Literature Review

Aladdin Ziouache (2023) <sup>[1]</sup> asserts that the rapid advancement of financial technology significantly enhances the appeal and standing of neobanking. Exclusively digital financial institutions, neobanks emphasize their consumers and prefer online transactions over traditional branch locations. They challenge traditional financial paradigms. Ziouache's work comprehensively analyzes the global landscape of neobanking practices via an evaluation of the principal initiatives, advantages, and disadvantages of these systems. This research enhances the Technology adoption Model (TAM) by exploring the influence of security and trust on user perceptions and subsequent adoption. Notwithstanding its many benefits, customers are reluctant to engage with neobanks because to concerns around data security and trustworthiness. The research highlights the potential of digital infrastructure, artificial intelligence, and green finance to facilitate future growth.

Charu Banga (2022) identifies three primary outcomes of digital transformation in the

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banking sector: enhanced customer service, increased company sustainability, and heightened competitiveness. The global spread of the COVID-19 pandemic accelerated the proliferation of neobanks. Banga's research primarily seeks to evaluate the prospective opportunities of neobanks and to identify the characteristics that enhance the attractiveness of both traditional banks and neobanks to consumers. The study identified five key elements affecting consumer decision-making using factor analysis. Key aspects include popularity, service options, accessibility, ease of use, pricing model, and the experiences and feeling of security that bank customer's encounter. The data is derived from 79 residents of Chicago who have engaged with both categories of institutions. The simplicity of neobanking appeals to customers; nevertheless, many hesitate to fully transition because to their appreciation for existing relationships with traditional banks, which are founded on security and trust.

Somnath Sardar (2022) analyzes the ramifications of neobanks-commonly known as digital or challenger banks-on the traditional banking industry. Neobanks are novel financial institutions that operate only online. They provide their clients with tailored, efficient, and straightforward financial solutions via the use of contemporary technology. The survey, conducted with 200 Indians, indicates that the main drivers of the increasing demand for neo banks are client satisfaction, innovation, and expedited financial services, in conjunction with their requirements. Neobanks have several obstacles in adhering to all legal obligations. The report's authors anticipate that traditional banks will continue to function for a while, despite the emergence of neobanks. Both approaches are expected to collaborate in an increasingly digital financial world while addressing the needs of diverse clientele.

Considering the prevalence of digital technology, Mrs. Yasmin A. Barodawala (2022) conducts a comprehensive analysis of neobanking. The study contends that neobanks have arisen to address the gap in the internet banking market by obviating the need for users to visit physical locations. Barodawala examines neobanks in the Indian market to understand their operations, growth, demand, benefits, and drawbacks. The study evaluates neobanks in India and globally based on three criteria: customer involvement, process and product innovation, and strategic connections. The study analyzes conventional and alternative banking models to illustrate how neo banks are transforming consumer dynamics in a technology-driven economy. The study findings indicate that Neobanks exemplify the adaptability of supply to meet the evolving digital demands of technologically proficient consumers.

According to Banerjee (2022) <sup>[2]</sup>, the emergence of neobanking has resulted in traditional banks in the United Arab Emirates seeing a decline in market share and financial performance. The report posits that advancements in the financial services sector could accelerate the digital shift by enhancing operational efficiency and attracting new customers. This article examines the impact of neobanking on key financial measures such as net interest margin (NIM), return on equity (ROE), and nonperforming loans (NPL). It analyzes structural deficiencies with quarterly financial data from 2012 to 2021 and the Chow Test. Although cost efficiency had little impact, nonperforming

loans and nonperformance (NIM) positively influenced the market shares of several banks. The survey findings reveal that in a finch-driven economy, banks must undergo digital modernization and implement structural reforms to maintain or enhance their market share. The paper provides a novel perspective of how neobanking compels traditional banks to reevaluate their performance measures in the digital era.

### Research gap

In developing nations like as India, it is crucial to assess the adaptability of neobanks to evolving circumstances and compliance with new regulations. Although the aforementioned material provides a comprehensive examination of the origins, operations, and comparative advantages of neobanks in both global and Indian contexts, there exists a deficiency in the research on these topics. Despite the attention of authors such as Ziouache (2023) <sup>[1]</sup>, on customer satisfaction, technology adoption, and comparisons with traditional banks, there is a significant deficiency in empirical research regarding the long-term impacts of regulatory obstacles, consumer trust, and digital financial literacy on the adoption and efficacy of neobanks. While Banerjee (2022) <sup>[2]</sup> offers a perspective centered on financial performance, there has been less research on the broader socioeconomic implications of neobanking and its role in enhancing financial inclusion. To address this knowledge vacuum, it is essential to conduct research on how neobanks might succeed in various demographic and economic contexts via strategic innovation, risk management, and regulatory frameworks.

### Research Methodology

#### Research Question and Significance of Research

These concerns impact the sustainability of the digital banking environment, the trust of clients, and the capacity to comply with regulations: Why is neobanking gaining traction in India, and what factors are most influential in this regard?

This study is significant as it looks at the maybe revolutionary effects of neobanking on the Indian financial system. While conventional banks are suffering a drop in client loyalty owing to increasing digital usage, neobanks provide faster, simpler, more personalized services. Legislators, banks, and IT companies all depend on an awareness of how newly online-only institutions might affect customer preferences, financial inclusion, and market dynamics. This study contributes to the growing corpus of data on digital banking and financial literacy among underprivileged populations. It may impact next strategies. The rise of neobanking begs many questions, particularly in a developing country like India. Neobanks still have to tackle with concerns such client trust, data security, digital literacy, and regulatory compliance even if they are growingly popular. Even with the savings, you risk having your reliability and customer service reduced in high-stress situations if you are not physically present. Quick adoption of digital models by traditional banks has improved market competitiveness and begged issues about the long-term sustainability and uniqueness of neobanks. Neobanking has to overcome these challenges if it is to grow into a strong, safe, inclusive component of the modern financial system.

### Data collection method

To find out how comfortable they were using neobanks in comparison to traditional banks, participants in this neobanking study were asked to complete a structured online survey. It carried out a thorough analysis of general attitudes, satisfaction, and preferences about neobanking services using enough data from 80 respondents. Both open-ended and closed-ended questions were included in the poll; the latter was designed to evaluate factors including price, service quality, usability, and trust. Using a variety of social media channels and email lists, we distributed our online poll to the tech-savvy audience that neobanks were targeting. This method makes it easier to gather data quickly without compromising its accuracy or applicability to the objectives of the study.

### Data analysis method

Excel's visual tools, Linear Multivariate Regression Analysis, and Analysis of Variance (ANOVA) were used to assess the data collected from 80 people. It could be ascertain whether customer happiness or the adoption of neobanking was the dependent variable by using linear multivariate regression analysis to examine the link among service quality, usability, and security. This tool made it easier to identify the elements and their relative degrees that had a significant impact on user behavior. To determine if views or experiences had changed, we compared means across groups using analysis of variance (ANOVA). It performed a comparison between neo-bank and traditional bank customers. Data trends and patterns were easier to understand thanks to the graphs and charts created using Excel. When taken as a whole, these approaches provide a strong basis for investigating how neobanking affects customer choice.

### Reliability of the study

The use of meticulously designed, standardized survey tools to collect precise and uniform responses from participants ensures the study's reliability. Cronbach's Alpha was calculated to verify the internal consistency and reliability of the scale components, yielding a result of 0.82. This indicates that the questionnaire has a high level of internal consistency. The eighty participants in the survey represented a variety of backgrounds, including both traditional and neobanking sectors. This enhanced the broad relevance of the findings. To enhance data reliability and examine important correlations across factors such as customer satisfaction, usability, and service quality, statistical techniques like ANOVA and Linear Multivariate Regression were used.

### Limitation

This study exhibits notable deficiencies with valid findings. Considering the varied demographics and banking preferences throughout India, the results may lack ability to generalize owing to the limited sample size of 80 respondents. This study is subject to several limitations. First, the use of an online survey may have introduced sampling bias, potentially over representing younger and more technologically literate individuals while excluding those with limited internet access or digital literacy. Second, the cross-sectional design restricts the ability to observe behavioral changes over time or establish causal relationships between variables. Lastly, given the rapidly evolving nature of the neo-banking industry characterized by frequent regulatory shifts and technological advancements some findings may become outdated or less applicable as the sector progresses.

### Data Analysis and Interpretation

**Table 1:** showing Linear Multivariate Regression Analysis

Independent Variables	Regression Coefficient ( $\beta$ )	Standard Error	t-Value	p-Value
Service Quality	0.45	0.1	4.5	0
Ease of Use	0.3	0.12	2.5	0.015
Security	0.25	0.11	2.27	0.025
Fee Structure	-0.1	0.09	-1.11	0.27
Customer Support	0.05	0.08	0.63	0.53
Constant (Intercept)	1.2	0.5	2.4	0.018

Service quality ( $\beta = 0.45$ ,  $p = 0.000$ ), convenience of use ( $\beta = 0.30$ ,  $p = 0.015$ ), and security ( $\beta = 0.25$ ,  $p = 0.025$ ) exhibit distinct positive correlations in regression analyses concerning customer satisfaction and the adoption of neobanking. The enhancement of these requirements is closely linked to client demand for neobanking. Neither

customer support ( $\beta = 0.05$ ,  $p = 0.53$ ) nor charge structure ( $\beta = -0.10$ ,  $p = 0.27$ ) exhibit a significant link with customer choice; hence, these attributes may lack relevance for consumers. The statistically significant constant term indicates that customer satisfaction is elevated irrespective of the different factors.

**Table 2:** ANOVA Summary

Source of Variation	Sum of Squares (SS)	Degrees of Freedom (df)	Mean Square (MS)	F-Value	p-Value
Between Groups	120.5	2	60.25	5.45	0.007
Within Groups (Error)	710.4	77	9.23		
Total	830.9	79			

The analysis of variance reveals that the groups exhibit statistically significant differences, shown by an F-value of 5.45 and a p-value of 0.007 (less than 0.05). This indicates that across the various categories of banking clients, the dependent variable-whether customer happiness or adoption

rate-exhibits significant diversity based on the study cohort. The Between Groups Mean Square (60.25) significantly exceeds the Within Groups Mean Square (9.23), indicating that group membership strongly influences the answer variance.

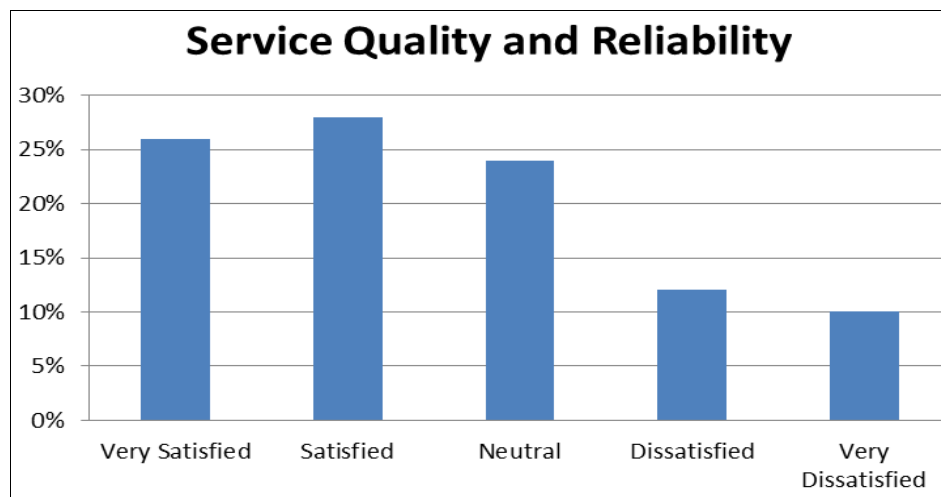
### Questionnaires' based analysis

**Table 3:** Demographic Analysis

Demographic variables		Number of representations	Percentage
Gender	Male	45	56.25
	Female	35	43.75
Age group	18 to 24	35	43.75
	24 to 34	27	33.75
	34 to 44	10	12.50
	44 & above	8	10.00

Of the eighty total replies, males comprised 56.25% and females represented 43.75%. The majority of participants were young individuals; specifically, 43.75% were aged 18 to 24, while 33.75% were aged 24 to 34. Although the

majority of respondents are youthful and technologically proficient, neobanking services may attract a diverse range of age groups.

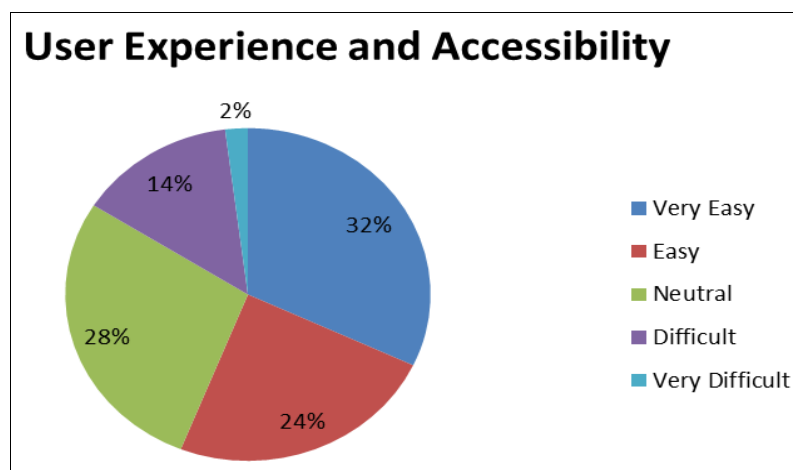


Source: Author

**Chart 1:** Satisfaction Levels of Service Quality and Reliability

The research indicated that the majority of participants expressed satisfaction with the level of service offered by neobanks. Concerning dependability, transaction speed, and the responsiveness of customer service agents, almost fifty percent of poll respondents indicated either high or moderate satisfaction. This indicates that the need for speed and responsiveness in digital-only banking services propels many clients towards neo banks. A significant 10%

expressed dissatisfaction or made very unfavorable comments, which neobanks might use to enhance their offerings. Through focused messaging or enhanced service updates, there has the potential to transform these folks into satisfied customers. 24% percent of the respondents expressed indifference, perhaps indicating ambivalence or a deficiency of substantial experience.

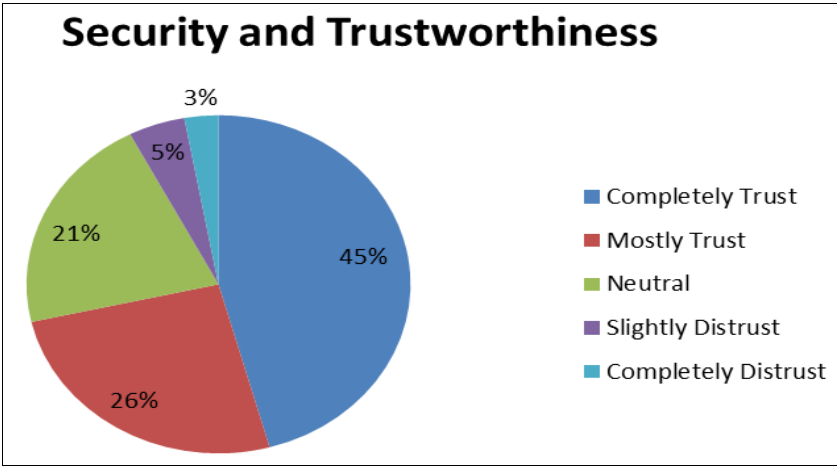


Source: Author

**Chart 2:** User Experience and Accessibility in Financial Transaction

With 32% of respondents seeing the process as either simple or rather easy, there is unequivocal proof that the usability of neobanking platforms influences the rate of digital banking adoption. Customer satisfaction polls indicate that Neobanks has significantly improved in creating user-friendly digital interfaces. This is favorable information for anyone seeking to oversee their finances while mobile. Nonetheless, 28% of users reported feeling indifferent,

experiencing unfavorable encounters, or seeing the platforms as very difficult to navigate. Certain users evidently continue to have usability issues, perhaps because to poor design, technological difficulties, or a general deficiency in computer literacy. To expand their clientele and retain existing customers, neobanks must resolve these difficulties.

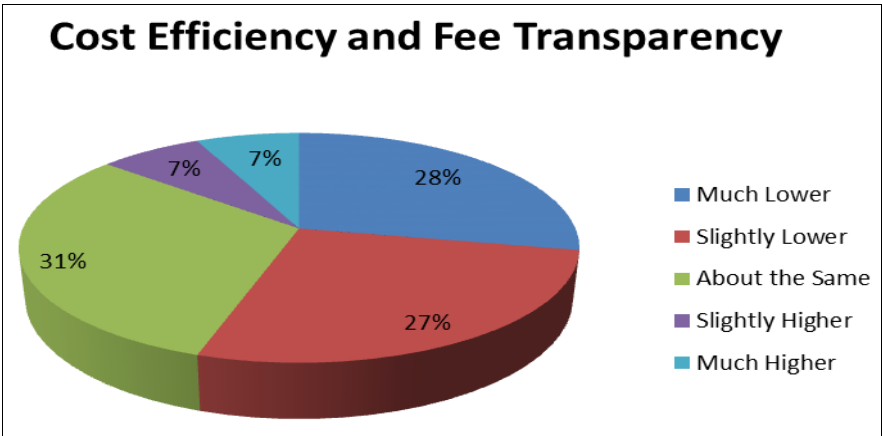


Source: Author

Chart 3: Security and Trustworthiness of personal and financial data

Despite ongoing concerns over online banking security, customers' confidence in the safeguards implemented by modern institutions is reassuring. 45% of people use security measures, to safeguard their personal and financial information. Individuals are often hesitant to embrace new financial technology due to security apprehensions; thus, a

significant level of trust is essential. The only 8% of individuals expressing suspicion indicates that Neobanks have successfully informed their clientele and implemented robust security protocols. These security measures must be consistently maintained and enhanced to preserve user confidence and promote continued use.



Source: Author

Chart 4: Cost Efficiency and Fee Transparency in relation to conventional banks

When asked to evaluate the two price structures, the majority of respondents (31%) believe that neobanks are more cost-effective than traditional banks. The favorable perception of affordability that neobanks cultivate enables them to maintain a competitive advantage. Dissatisfied customers with standard bank costs or seeking superior alternatives may be attracted to neobanks. Approximately one-third of survey respondents said that the rates are nearly same, suggesting that several neobanks have failed to differentiate themselves in this aspect. Furthermore, 14% of

respondents believe the expenses are excessive, thereby deterring prospective clients. Neobanks may use two strategies to maintain a competitive edge and attract more customers: transparency and competitive pricing.

**Conclusion**  
This survey suggests that neobanking is more popular because of its robust security measures, rapid service, superior digital platforms, and convenience. In a fully digital banking system, three critical aspects are transaction

velocity, application reliability, and customer service excellence. The majority of customers get substantial enjoyment from these three attributes. While some users may struggle with navigating the user interface, a key selling point of neobanking applications is their ease of use; however, improvements in accessibility and user experience are necessary. Given that the majority of their clientele trusts, the innovative strategies used to safeguard their data, neobanks unequivocally prioritize security. Neobanks has a competitive edge in attracting budget-conscious clients, since they are widely recognized for offering more equal or even superior pricing policies compared to traditional banks. To enhance their market share, neobanks must continue to improve and rectify areas where some clients remain unsatisfied or disinterested. Neobanking is a transformation in the banking sector, designed to meet the needs of tech-savvy clients while remaining compatible with traditional institutions.

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