

A Study of Awareness of Neo Banks in India and The Way Ahead

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Abstract

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With the advent of FinTech, the financial sector has undergone a digital revolution, giving rise to innovative services and platforms. Neo banks are virtual institutions without physical branches, offering digital only financial services through mobile applications. Unlike traditional banks neo banks operate entirely online focusing on a mobile-first approach to cater to the tech-savvy generation. Technological advancements, innovative models and niche customer-focused approach have helped neobanks in creating novel, technology-based platforms and agile business models, and delivering innovative financial services. One of the key features of neo banks is their focus on customer experience. They prioritize providing a user-friendly interface, personalized services, and round-the-clock access to financial products and services offering a wide range of banking services through their mobile apps or websites. The current paper focusses on the awareness level of neo banks in India, acceptability of neo banks by the users bringing out the advantages and disadvantages. For this purpose responses are collected from about 284 people through self-administered questionnaire and analyzed using SPSS software. The results of the research highlight the perception of stakeholders towards neo banks. The paper will also attempt to bring out recommendations on the growth of neo banking in India.

Keywords: Neo-banks, Fintech, Traditional Banking, Awareness, Niche Market

1. Introduction

The last 10 years of the banking system has seen a paradigm shift in their functioning from their basic functions of accepting deposits and giving loans to the introduction of no-man banking systems with newer products and services. Banks being in the fiduciary position play a vital role in the economy by bringing in as much financial inclusion as possible at all levels. With the help of AI and information technology the banking system has now moved to digital banking to bring convenience and ease of making banking transactions. The past couple of years are marked by fintech revolution in banking industry with an acceptance rate of 87% for Fintech in India.

The traditional banking system has certain constraints high transaction costs, limited underwriting ability, low risk appetite, and lack of product innovation, fast pace of life for people which gave rise to the need for digital banking. Neo banks are becoming the new face of the Indian banking system. These banks have emerged as a Solution to Financial Inclusion. They Are Online-only Or Can Say Banks with No Physical Branches Which Operate Digitally or Through Mobile Apps Neo Banks Are a Breakthrough in the Banking Industry. They are operated by FinTech companies have rightly identified the gap between the needs of the customers and the services offered by traditional banks facilitating flexibility, security, greater

capacities, and greater efficiency in the financial segment.

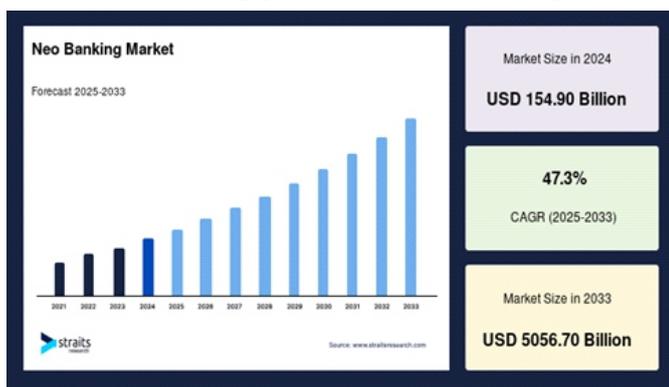
1.1 Advent of Neo Banks and the Neo Banking Industry

Neo banks have emerged as a disruptive force in the financial services sector, primarily due to their strong emphasis on enhancing customer experience. These digital-only banks focus on delivering seamless, user-friendly interfaces, personalized services, and 24/7 access to a broad suite of financial products. Through mobile apps and web platforms, they offer a comprehensive range of services such as checking and savings accounts, loans, payments, investment options, and budgeting tools.

Unlike traditional banks, neo banks operate entirely online, without physical branches, allowing them to deliver cost-efficient services. The concept of neo banking first gained traction in Europe, which pioneered this digital banking revolution. Subsequently, countries like the United States, Canada, and other parts of Europe followed suit.

The neo banking sector witnessed exponential growth during the COVID-19 pandemic, as both consumers and investors recognized the efficiency, accessibility, and innovation offered by these platforms. Their ability to provide higher interest rates on deposits, lower loan rates, and a more intuitive banking experience has significantly contributed to their popularity.

Chart 1 – Showing growth of Neo Banking



Source: Straits Research

The above chart clearly depicts the growth of neo banking worldwide. With an Expected CAGR of 47% these FINTECHs are definitely focussed on creating a niche for themselves

1.2 Neo Banks in Indian Banking Industry

Neobanks today are not directly regulated by RBI. Instead, it is the bank with which the neobank is partnering with that is the regulated entity. The partner banks will need to prove to its regulators that it has a certain level of oversight and control over the Fintechs in its portfolio. A favourable environment for the growth of digital banking solutions established by the government’s push for digitalization and financial inclusion programs like the Pradhan Mantri Jan Dhan Yojana (PMJDY) and the Unified Payments Interface (UPI) contributed to the growth of these banks. . In India, NEO banks currently do not keep their own banking licenses from the Reserve Bank of India (RBI) and work rather with traditional banks to offer financial services, which means that they are indirectly regulated by these partnerships. Essentially, they offer banking functions via a digital interface, while they rely on banks established for basic banking functions.

In India, an array of neobanks emerged with user-friendly mobile apps, rapid account opening, budgeting tools, and value-added services like incentives, cashback offers, and cost management have become well-known. Today, there are over 100 neo banks operating worldwide. In India, the neo banking landscape is rapidly evolving, with approximately 20 active players, including notable names such as Freo, Zik Zuk, Akudo, Finin, Chqbook, Niyo, Mahila Money, RazorpayX, InstantPay, FamPay, Fi Money, and Jupiter. These platforms are redefining how banking is perceived and delivered, particularly among tech-savvy and underserved segments of the population. To reduce the risks of financial crime, neobanks must put in

place strong identity verification procedures and transaction monitoring systems by Know Your Customer (KYC) and Anti-Money Laundering (AML) regulations.

2. REVIEW OF LITERATURE

Neo banks are a relatively newer concept but have received worldwide acceptability due to the convenience and cost factors for the banking industry. They are expected to contribute large to the financial inclusion of the economy. Some research in this area has been conducted by various researchers;

- Sabbani(2024) has studied the rise of neo banks against the traditional banking setup and has concluded that although neo banks have placed high priority on data privacy, they are still struggling their way in the Indian markets due to regulatory compliances. The extensive use of technology in the banking industry is there to stay and newer financial products can be created with the use of technology to
- Surpalsinh Rathod, Neelam Purey (2024) have through their study indicated that neobanks have successfully disrupted conventional banking by providing low-cost, seamless, and user-friendly services. These offerings particularly appeal to younger, tech-savvy consumers and financially underserved populations. However, the study also identifies several barriers that continue to affect the growth and stability of neobanking. These include the need for regulatory clarity, enhanced cybersecurity frameworks, and broader efforts to ensure financial inclusion. Overall, the review suggests that while neobanks hold transformative potential, their long-term success depends on addressing these systemic challenges through collaborative policy and innovation strategies.
- Singh and Sharma (2023) explored the evolution of neobanks in India, emphasizing their transformative potential in delivering customer-centric financial services through AI-driven tools and mobile platforms. They highlighted how neobanks, unlike traditional banks, focus on a digital-first approach with enhanced user interfaces and all time accessibility,. They also made note of challenges such as regulatory ambiguity and customer trust and acceptability
- Gupta and Mehta (2023) analyzed the technological backbone of Indian neobanks, focusing on the adoption of artificial intelligence, blockchain, and data analytics. They found that innovation in service delivery significantly contributed to customer satisfaction and retention. The study emphasized the competitive edge neobanks gain through faster technological adaptation compared to legacy banks.
- Kavya Shabu (2022) conducted a primary survey involving approximately 500 respondents via social media platforms to gauge public sentiment and perceptions regarding neobanking. The findings revealed a predominantly positive outlook, with many participants recognizing the potential of neobanking to leverage artificial intelligence for enhanced banking opportunities. However, the study also brought attention to certain concerns. Specifically, respondents expressed apprehension that the lower-cost structure of neobanking services could disrupt the traditional banking sector. This disruption, driven by the higher operational costs of conventional banks, could potentially lead to reduced employment in the sector and pose broader challenges to economic development.
- Rajan and Nair (2022) conducted an empirical study to understand consumer perceptions toward neobanks across Tier-1 and Tier-2 Indian cities. Their findings suggested that while tech-savvy customers appreciated the convenience and interface of neobanks, concerns over data security and lack of physical branches hinder widespread adoption. Trust remains a significant factor in determining acceptance.
- Ganeshkumar (2022), in his study "Neo Banking: The Future of Banking in India", analyzes the emergence of neobanks as a transformative force

within the Indian financial ecosystem. The study emphasizes how neobanks utilize cutting-edge technologies such as artificial intelligence, data analytics, and mobile platforms to deliver branchless, customer-centric banking solutions. It attributes the rapid growth of neobanking to factors like increasing smartphone penetration, fintech innovation, and evolving consumer expectations. While highlighting the benefits of neobanks—including operational cost efficiency, real-time service delivery, and personalized financial solutions—the author also addresses critical challenges such as regulatory uncertainties, cybersecurity concerns, and the imperative of building consumer trust. The study advocates for strategic alliances between neobanks and traditional banks to ensure regulatory compliance and long-term viability. Ultimately, the research concludes that neobanking holds substantial potential to reshape India's banking landscape, provided there is a supportive regulatory environment and continuous technological innovation.

- Mishra and Choudhary (2021) examined whether neobanks represent a true disruption or are simply digital extensions of traditional banking institutions. They analyzed partnership-based business models prevalent in India, where neobanks collaborate with licensed banks to offer financial services. The study provided insights into the success of platforms like Jupiter, Fi, and RazorpayX, highlighting the blurred line between innovation and regulatory compliance.

3. OBJECTIVES OF THE STUDY

- To study the inception, concept, and need for Neo banks in India.
- To study the awareness of the people towards neo banking with respect to their age.
- To study the perception of people towards factors influencing their decision of using Neo Banking with respect to Gender.
- To study the perception of people towards

potential issues and challenges associated with neo-banks with respect to Age.

- To identify most prominent factor influencing customers decision of using Neo Banking.
- To study most prominent potential risks and challenges associated with Neobanks.

4. RESEARCH METHODOLOGY

The research is descriptive in nature in which researcher has used convenience sampling method to collect the responses from the 284 people living in Mumbai city. Structured questionnaire was divided into two segments, first segment includes questions related with demographics and second segment represent the questions related with the objectives to be attained. Dichotomous and Likert scale has been used for framing the questions. Secondary data has been collected from the Journals and websites. SPSS software has been used for conducting reliability analysis, percentage and frequency analysis, Chi square test, ANOVA and t Test.

5. HYPOTHESIS OF THE RESEARCH

1. H0: Age does not have any relationship with the awareness of the people.
H1: Age has a relationship with the awareness of the people.
2. H0: There is no significant difference in the perception of people towards factors influencing their decision of using Neo Banking with respect to Gender
H1: There is a significant difference in the perception of people towards factors influencing their decision of using Neo Banking with respect to Gender
3. H0: There is no significant difference in the perception of people towards issues and challenges associated with neo-banks with respect to Age.
H1: There is a significant difference in the perception of people towards issues and challenges associated with neo-banks with respect to Age.

4. DATA ANALYSIS

Table No. 1: Frequency Distribution of Demographic

		Frequency	Percent
Age	18 – 25	148	52.11%
	25 – 40	108	38.03%
	40-60	28	9.86%
	Total	284	100%
Gender	Male	134	47.2%
	Female	150	52.8%
	Total	284	100%
Educational Qualification	Under Graduate	02	0.7%
	Graduate	126	44.4%
	Post Graduate	156	54.9%
	Total	284	100%

Source: Compiled by the researcher

Table No. 2: Awareness of Respondents towards Neobanks

	Frequency	Percent
Yes	205	72.18%
No	79	27.82%
Total	284	100.0%

Source: Compiled by researcher

Interpretation: Above Table shows that majority of the respondents (72.18%) are aware about Neo Banking

Table No. 3: Source of Information about Neo Banking

	Frequency	Percentage
Online articles or blogs	86	30.3 %
Social media	88	31.0 %
Family and Friends	66	23.2 %
Advertisement and Marketing Campaigns	16	5.6 %
Personal Experience	24	8.5 %
No Idea	04	1.4 %
Total	284	100 %

Source: Compiled by the researcher

Interpretation: Above Table shows that majority of the respondents (72.18%) are aware about Neo Banking

Table No. 3: Source of Information about Neo Banking

	Frequency	Percentage
Yes	104	36.6%
No	92	32.4%
Planning to use in Future	88	31.0%
Total	284	100%

Source: Compiled by the researcher

Interpretation : The above table data shows 36.6% of the total respondents have used Neo banking Platform

Table No. 5: Neo Banking have adequate Regulatory Oversight

	Frequency	Percentage
Yes	70	24.6%
No	56	19.7%
Not sure	158	55.6%
Total	284	100%

Source: Compiled by the researcher

Interpretation: The above table data shows 55.6% respondents are not sure about Regulatory oversight of Neo Banking.

Table No. 6: Using Neo Bank in Future

	Frequency	Percentage
Yes	192	67.60%
No	32	11.27%
Not Sure	60	21.13%
Total	284	100%

Source: Compiled by the researcher

Interpretation: The above table data shows that 67.60% of the respondents will use Neo Banking in

future also.

Table No. 7: Preference of using Neo Bank or Traditional Banking

Operating online mode is fine	128	45.1%
Prefer to have physical branches	92	32.4%
No Preferences	64	22.5%
Total	284	100%

Source: Compiled by the researcher

Interpretation: The above table data shows that 45.1% of the respondents would like to use neo banking over Traditional Banking

Table No. 8: Reliability Analysis of factors influencing decision of using neo banking

Reliability Statistics	
Cronbach's Alpha	N of Items
0.979	25

Source: Calculated by the researcher

Interpretation: The calculated value of Cronbach Alpha is 0.979 which shows good internal consistency among factors influencing decision of using neo banking

Hypothesis Testing

1. H0 : Age does not have any relation with the awareness of the people

H1: Age has a direct relation with the awareness of the people

Table No. 9: Chi Square test between demographic factor Age and Awareness of people

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	284.00	2	0.0000
Likelihood Ratio	335.811	2	0.0000
Linear-by-Linear Association	283.00	1	0.0000
N of Valid Cases	284		

Source – compiled by the researcher

Interpretation – In the above table the calculated sig value is lesser than 0.05 which shows null hypothesis is rejected, and alternate hypothesis is accepted Age has a direct relation with the awareness of the people. This could be associated with the fact that being a fintech company neobanks are better received by younger people who are more adept to technology.

2. H0: There is no significant difference in the perception of people towards factors influencing their decision of using Neo Banking with respect to Gender.
H1: There is a significant difference in the perception of people towards factors influencing their decision of using Neo Banking with respect to Gender.

Table No. 10: T Test between perception of people towards factors influencing their decision of using Neo Banking and Gender

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	T	df	Sig.(2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
Factors Affecting Decision of Using Neo Banking	Equal variances assumed	0.019	0.889	1.374	282	0.171	3.012	2.193	1.304	7.329
	Equal variances not assumed			1.382	281.995	0.168	3.012	2.179	1.277	7.302

Source: Compiled by the researcher

Interpretation: As the calculated sig. value 0.168, which is greater than 0.05, which shows null hypothesis is accepted, therefore there is no significant differences in the perception of people towards factors influencing their decision of using Neo Banking with respect to Gender. This indicates the fact that women are today well educated and well aware of the use of finance and technology

3. H0: There is no significant difference in the perception of people towards issues and challenges associated with neo-banks with respect to Age.

H1: There is significant difference in the perception of people towards issues and challenges associated with neo-banks with respect to Age.

Table No. 11: ANOVA test between demographic factor Age and issues and challenges associated with neo-banks

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	175.090	2	87.545	0.381	0.684
Within Groups	52194.653	227	229.932		
Total	52369.743	229			

Source – compiled by the researcher

Interpretation – In the above table the calculated sig value is greater than 0.05 which shows null hypothesis is accepted which means there is significant difference between the age of the respondent and their perception towards issues and challenges neo-banks encounter. This brings together the fact that the challenges and the difficulties perceived by the users of neobanks vary as per their age.

Table No. 12: The most important factor influencing customers decision of using Neo Banking

Factors	Mean	Rank
Speed of operation	3.82	1
Lower Fees	3.80	2
24/7 Customer Service	3.78	3
No Minimum Balance Requirements	3.77	4
Digital-First Approach	3.77	5

Source: Compiled by the researcher

Interpretation: Mean analysis is done on 25 Factors. The above table shows that the first five important factor influencing customers decision of using Neo Banking viz. the speed of operation (3.82), lower fees (3.80), 24*7 customer services (3.78), No Minimum Balance Requirements (3.77), Digital – First Approach followed by other factors. This clearly brings out that investors are interested in speedy and hassle free transactions at the lowest possible cost.

Table No. 13: The most important issues and challenges Neo-banks encounter

Factors	Mean	Rank
Lack of awareness about neo-banking services	3.83	1
Data security and fraud prevention	3.80	2
Trustworthiness of the platform	3.73	3
Competition from traditional banks and fintech	3.73	4
Lack of face-to-face customer service	3.73	5

Source: Compiled by the researcher

Interpretation: Mean analysis is done on 22 factors and the above table shows the five most important

issues and challenges Neo-banks encounter are Lack of awareness about neo-banking services (3.83), Data security and fraud prevention (3.80), Trustworthiness of the platform and Competition from traditional banks and fintech (3.73), Lack of face to face customer services.(3.73). This clearly shows that people think that the biggest challenge for the investors in lack of awareness and trust. This is why they still prefer traditional banking methods. An increase in awareness by the associated banks will help in the growth and reachability of neo banks

5. FINDINGS

The study reveals a balanced gender representation among respondents, with a slightly higher percentage of females and a majority belonging to the 18–25 age group holding postgraduate degrees. Around 72% of respondents are aware of neobanks in India, primarily through digital platforms such as social media. However, actual usage remains low, with only 37% having used neobanking services—largely due to limited understanding of their regulatory status, as 57% expressed uncertainty on this front. Despite limited usage, there is strong future potential: 68% of respondents are open to using neobanks, and 45% are keen to adopt them for everyday banking, drawn by benefits like low transaction costs, ease of access, and digital convenience. The younger generation shows higher awareness and willingness to adopt neobanking, while older respondents demonstrate a preference for traditional banking, often due to digital literacy challenges. Gender was found to have no significant impact on perception or adoption of neobanking. However, age significantly influences attitudes toward challenges and trust issues. Key concerns include lack of awareness (mean score 3.83), data security and fraud prevention (3.80), and trust in the virtual platform (3.73). These concerns are compounded by neobanks' limited regulatory clarity and absence of direct RBI oversight.

Nonetheless, neobanks offer compelling advantages such as speed of operations (3.82), lower fees (3.80), round-the-clock customer service (3.78), and no

minimum balance requirements (3.77), making them attractive, especially for younger users. While neobanks are unlikely to replace traditional banks, they are expected to complement them by promoting paperless, green banking and improving service accessibility. For sustained growth, regulatory clarity and trust-building will be essential.

6. SUGGESTIONS

1. To win the trust of the people adequate laws and policies should be formulated related with neo banking and should be properly executed and implemented.
2. Awareness program should be conducted by regulatory bodies.
3. Transparent Policies and ease to use the app with assistance will help in promoting the use of neo banks
4. Neo banks should provide innovative and wide coverage of services.
5. Enhance cyber security measures
6. Build strong customer relations and adopt customer attraction and retention strategies.

7. LIMITATION OF THE STUDY

1. Bias behaviour of the respondents cannot be ignored
2. Study is restricted to Mumbai city only
3. The perceptions of the people change with time. The study is applicable for the current period
4. Due to paucity of time only 284 responses have been taken. With a wider coverage there may be some change in the awareness level and perceptions

8. CONCLUSION

Neo banks have created their niche area and contributed positively towards financial inclusion yet it still remains a grey area. However with the growing digitalisation and the tendency to speed up the financial transaction the working of neo banks along with the traditional banks almost seems inevitable.

The traditional Indian still feels the need for a physical presence and therefore neo banks can work hand in hand with the traditional banks rather than compete with each other. Besides transparency and openness in the functioning of neo banks will help reduce corruption and unethical practices. Additionally transaction costs such as processing fees and other fees can be reduced considerably. Neobank is offering its clients a user-friendly interface and a variety of fresh user data. Neo Bank can concentrate on small and medium-sized enterprises in order to support national development at the lowest feasible cost. Since the majority of Neobank clients are able to file their GST returns and other indirect tax returns, Neobank is a good choice for quick payment and collection as well as tax compliance. However, due to legislation policies and lack of trust of the customers it is still a grey area. The strengths of the neo banks viz. convenience in banking, lower transactional costs etc. definitely have an edge over the traditional banks.

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