

# Neo Banks: A Paradigm Shift in Banking

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### ABSTRACT

**Purpose:** *In terms of market structure and competitiveness, Indian banking has seen major changes. The future of banking services is being revolutionised by technical and digital advancements. Technology advancements are anticipated to have a significant impact on the global financial sector in the near future. Innovations in payments, lending, asset management, and insurance put financial institutions' business models and strategies to the challenge, but they also offer opportunities to both newcomers and existing market players. Fintech is a term used to characterise emerging technological advancements in the financial services sector due to an increased reliance on information technology. The concept of new- generation banking is resonating with traditional banks' increased use of technology through in-house upgrades or partnerships with fintechs. This in turn is driving the banking sector toward new business models, innovative products, and services. Clients nowadays, particularly retail customers, want banks to offer them efficient, dependable, and customised services. Therefore, there is a need to offer financial services that are both affordable and accessible to everyone. Narrow banks. One such cutting-edge strategy used by fintech companies is neo banking. Neo banking is a financial industry buzzword that is revolutionising India's Fintech industry. Neo banks, which have been widely successful, are now expanding into India and giving users access to financial services with just a mouse click. Neo banks can offer banking services and products online through partnerships with traditional banks despite not having a physical presence. Neo banks provide cutting-edge banking options to their clients, particularly the tech-savvy generation and the underbanked citizens of our nation. Therefore, this research paper aims to introduce this concept of neo banking to a wider range of consumers and attempts to make a study on Neo bank in its present and future by analyzing its pros and cons through SWOC and ABCD Framework Analysis.*

**Design/Methodology/Approach:** *Research gap is identified after a literature search on Neo banks. Since this concept is in its inception in India, there is a lot of scope for research. Secondary data is analysed to understand the concept of neo banks and SWOC and ABCD framework analysis is conducted on Neo banks.*

**Findings/ Results:** *This research article explores the new paradigm shift in providing financial services to individuals and businesses. Since Neo banks are in its inception stage, this paper attempts to understand the advantages, challenges, and benefits of Neo banking through ABCD and SWOC analysis. In addition, the paper also focuses on 5 prominent neo banks in India and the growth and future for Neo banking in India.*

**Type of Article:** *Review-based exploratory study.*

**Keywords:** Innovation, Technology, Fintech, Neo Banking, SWOC analysis, ABCD Framework analysis.

### 1. INTRODUCTION :

The banking system has undergone a drastic change over the last decade from accepting deposits and lending to the introduction of various new products and services. Banks have strived to achieve financial

inclusion of all classes and have brought tremendous services to include the excluded. From financial literacy initiatives to the opening of brick-and-mortar branches to meet the needs of its clients, the banking system has now moved to digital banking to bring convenience and ease of making banking transactions. It is noteworthy that India has seen an extraordinary level of digitization over the past several years, which has fundamentally altered how banking services are provided. Inclusion across the financial sector is being driven by digitization, which has emerged as a key subject. With an acceptance rate of 87% for FinTech compared to a global average of 64%, India wants to be the leading financial technology hub in Asia. RBI has been actively involved in building an ecosystem that would stimulate the technology aspirations of the financial community [1].

Due to certain supply-side constraints in traditional brick-and-mortar banking such as high transaction costs, limited underwriting ability, low risk appetite, and lack of product innovation, there arose a need for digital banking. Neo banks are becoming the new face of the Indian banking system. These banks which are operated by FinTech companies have rightly identified the gap between the needs of the customers and the services offered by traditional banks.

The term FinTech, which combines the words "finance" and "technology," is a result of digital transformation in the financial sector. A combination of financial services and digital technologies is referred to as fintech. Fintech provides and facilitates flexibility, security, greater capacities, and greater efficiency in the financial industry when compared to currently available traditional services and products. Fintech currently provides a variety of products to enterprises. Businesses should comprehend and be aware of which FinTech sectors to invest in (such as digital wallets, peer-to-peer lending, e-insurances, bitcoin, and artificial intelligence), as well as in which geographical regions, due to the plethora of advances in this industry [2].

Neo bank (virtual, digital, Internet banking) is a phrase that has been in use since 2017. Neo banks are fintech companies that offer both conventional and novel banking services online (such as peer-to-peer payments, automated financial advisors, cryptocurrency exchanges, and crowdfunding platforms to raise money for specific financial projects or their intangible equivalents that are directly related to the project) [3]. Some of the most important FinTech products and services now on the market include peer-to-peer (P2P) lending platforms, crowdfunding, blockchain technology, distributed ledger technology, big data, smart contracts, robot advisors, e-aggregators, etc. With or without a nodal intermediation agency, these FinTech products are now employed in international finance to connect lenders and borrowers, information seekers and suppliers [4]. According to a Business Standard article published on July 24, 2022: A neo bank is an online-only digital bank that doesn't have any physical locations. Neo banking refers to a broad range of financial service providers that primarily target tech-savvy clientele. Neo Bank is essentially a fintech company that offers services including debit cards, payments, money transfers, lending, and more that are digital and mobile-first. Neo banks are not banks, they are fintech companies with banking partners. Thus, they fall indirectly under RBI's Jurisdiction. The first neo banks were Simple and Moven, which were introduced in the US in 2009 and 2011, respectively. Neo banks provide services through a robust digital interface that is created to appeal to particular customer groups to set themselves apart from traditional banks [5]. Now, there are roughly 400 Neo banks around the world serving close to one billion clients [6].

Several analytics and Accounting organisations predict that neo banks will replace about 40 percent of traditional bank branches by 2032. In light of the fact that the global market for neo banks was valued at USD 18.6 billion in 2018 and is anticipated to develop faster between 2019 and 2026, with a CAGR of roughly 46.5 percent, to reach USD 394.6 billion by 2026 [7].

### **1.1 Functions of Neo banks:**

1. Neo banks' primary function is to provide tech-driven services.
2. Neo banks ensure client satisfaction, distribute the product, and administer the apps.
3. These fintech firms work with conventional banks to offer cutting-edge banking services through sleek, user-friendly mobile apps.
4. Neo banks gather client information to better understand consumer behaviour and provide them with improved services.
5. Neo banks provide lending services to young students who want to build a credit score and no-fee customer accounts that are advantageous for first-time earners.[9].

6. Opening an account at a neo bank takes only 3 to 10 minutes. The setup procedure is easy, involving only a brief form and a direct video conversation. The programmes are well-designed and user-friendly.
7. Neo Banks provides free international use of their debit cards together with real-time currency rates. Additionally, they provide the option to open a cryptocurrency account.
8. Neo Banks' customers can control their expenses with the application. Users can quickly review their monthly expenses.
9. Neo bank clients are provided with a free debit card. This card may be managed using a mobile application, and using the app, one can instantaneously block or change the password at any time. [10].

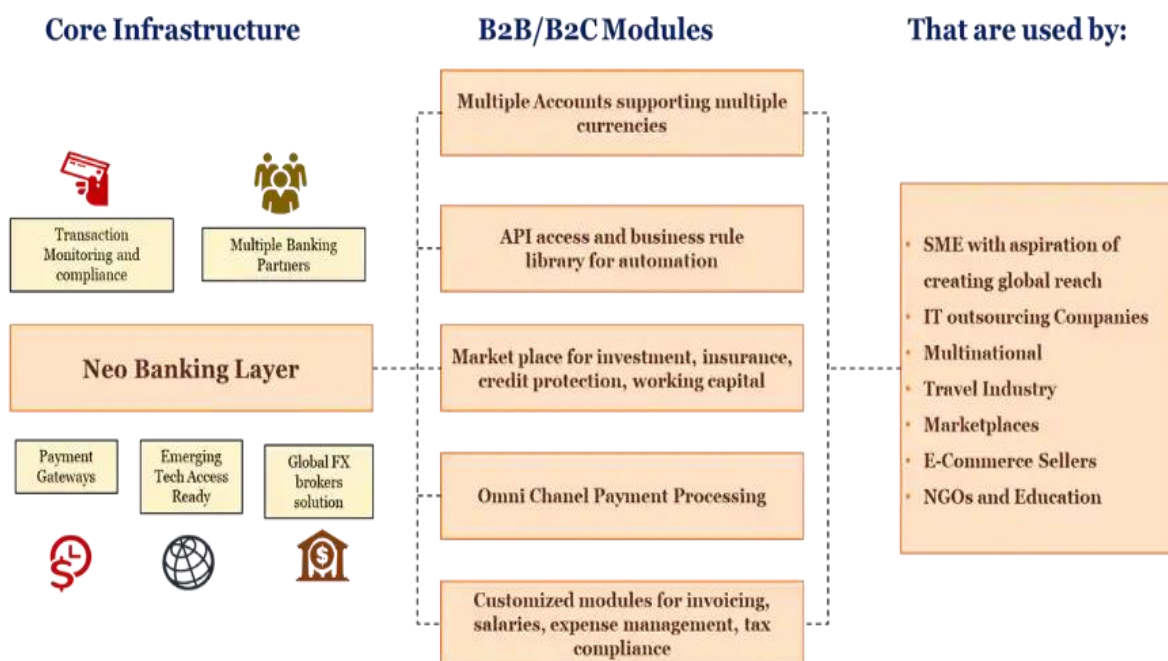


Fig. 1: Neo banking system, Source: [www.pwc.in](http://www.pwc.in) [8].

### 1.2 History of Direct Banking Models:

Table 1: History of Direct Banking Models (1990 onwards)

1990	2000	2010	Today
<b>First generation direct banks</b>	<b>Second generation direct banks</b>	<b>Neo banks</b>	
<ul style="list-style-type: none"> <li>● Beginning in the 1990s, at its height before the dotcom bubble, with the call centre serving as the core of the business model, and frequently associated with one of the established banks</li> <li>● No sustained economic success</li> </ul>	<ul style="list-style-type: none"> <li>● Introduced as a direct competitor to traditional banks</li> <li>● Strong growth in the 2000s, achieving scale through organic growth or acquisitions (such as ING DiBa) (e.g. DKB) Put your attention on online (desktop) and process automation to cut costs!</li> <li>● New direct banking models, such as brokerage specialists,</li> </ul>	<p>There are five ways to recognise a Neo bank:</p> <ul style="list-style-type: none"> <li>● Disrupting a particular market, product, or process; placing a strong emphasis on customer experience and "journeys"; using smartphones as the main distribution and communication channel; relying on a new, flexible IT architecture with no "Legacy"; and emphasising API-Native and Open Banking.</li> </ul>	

	savings monolines, or primary banking substitutes for branch banks, are emerging.	
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Source: Stegmeier, C, 2020 [11].

### 1.3 Regulatory consideration for Neo banks in India:

Virtual banking licenses are still not available in India, even though some foreign national banks have Indian subsidiaries that primarily offer digital products. The RBI has lately reaffirmed that digital banking service providers must also have a physical presence in addition to continuing to stress that banks prioritise having a physical presence. Brick-and-mortar branches are essential because they allow for in-person client service and problem resolution. Neo banks are currently addressing the regulatory environment by outsourcing their banking responsibilities to those who have banking licenses, developing strategic partnerships with traditional banks, and providing improved services on behalf of existing institutions. This idea is already being applied globally by some neo-banks. To provide consumer and commercial banking, Neo banks collaborate with traditional banks. Although the neo-bank provides financial and banking services to end users, their partner banks handle financial transactions from a regulatory standpoint [12].

### 1.4 Objectives:

This paper aims to fulfil the following objectives

- To understand digitization and its pros and cons in the banking industry.
- To study the inception, concept, and need for Neo banks in India.
- To conduct an ABCD framework analysis & SWOC analysis on Neo banks.
- To provide suggestive measures to Fintech Companies and customers regarding the perception and advantages of Neo banks.

### 1.5 Methodology:

This study is undertaken to understand the structure and model of neo banks and perform ABCD framework analysis & SWOC analysis of Neo banks. In order to conduct this research, secondary data has been collected and analysed. Various Journal articles, books, websites, newspaper articles, etc are used to conduct this research.

## 2. LITERATURE REVIEW :

The review of literature is undertaken to study the relevance of digitalization and the benefits of technology in banking. It highlights the growth of Fintech companies and the establishment of Neo banks. An overview of Neo banks and the benefits associated with transacting with Neo Banks is also stated in the literature review. The literature review is undertaken by referring to electronic database such as Google Scholar, newspaper articles, blog articles from various websites, and the websites of Neo banks.

The banking system is one of the industries that has been greatly affected by information technology advancements. IT has grown to be a crucial company resource because its absence can lead to failure and business loss. Technology has made new markets, products, services and efficient delivery routes available to the banking industry. Digital banking, mobile banking, and online banking are just a few examples. Owing to information technology, the banking industry today has the resources required to handle the challenges posed by the changing economy. Information technology has been the foundation for recent improvements in the financial sector that aim to strengthen the banking sector and speed up and dependability of financial operations. Information technology allows banks to meet customer needs. Customers of a bank now demand instant, anytime, and anywhere banking facilities [13]. The deployment of cutting-edge information and communication technologies as well as process automation, which can then improve the efficacy and efficiency of organisational processes, have the potential to benefit businesses when technological breakthroughs are successfully embraced [14]. Technology is changing how businesses engage with their customers as well as the environment. It is

regarded as a tool for cutting expenses and establishing beneficial relationships with individuals working in the banking sector. The improvement of the financial system's technological infrastructure is another top objective for the RBI [15].

Neo banks are the outcome of India's ongoing evolution. Neo banks, also known as financial technology companies (fintech), frequently provide mobile-focused banking accounts with eye-catching features like low-cost credit or cash-back advantages. A few well-known neo banks also provide loans, credit cards, and investment products. Since neo banks lack a banking license, these fintech companies that provide banking services typically run without branches while partnering with banks to offer FDIC insurance [16].

In 2017, as digital and virtual activities grew, Neo banks gained popularity and momentum. The adoption of new technologies by the new generation of MSMEs and those with irregular income and revenue is one of the factors propelling the development of Neo banks [17]. Neo banking's main goal is to deliver cutting-edge financial services at a cheaper cost by using fintech and AI. There is a void that the traditional banks' present apps cannot fill [18]. The transformation of SMEs, which results in sustainable business, improves linkage and integration of the circular economy, and is greatly aided by fintech. Today, Fintech encompasses some important topics including bitcoin, blockchain technology, and a newcomer to the financial industry known as Neo Banks. These banks don't have any physical locations [19]. The fintech revolution has reportedly taken over the worldwide market as of 2021 and is having a significant impact on the banking and financial sectors in particular, according to Wang X et al. Fintech's growth and adoption into corporate operations can help traditional banks operate more efficiently and provide greater customer service while also lowering operating costs and strengthening risk management capabilities [20]. Anshari et al. proposes that by 2020 Fintech services and products will have both negative and positive effects on the financial sector, influencing consumer financial behaviour by offering new business models and financial solutions. Fintech, or digital innovations, have grown to be a potentially disruptive force in the financial sector. A recent FSB study highlighted some of the potential benefits of FinTech, including improved efficiency, less risk, and financial inclusion. Additionally, it highlighted some of the significant challenges associated with regulating a developing technology that has a variety of application scenarios, monitoring behaviour outside the regulated area, and identifying and tracking new risks brought on by the technology [21].

COVID-19 undoubtedly had a negative impact on the world economy, but it also sparked the digital transformation of many different businesses. One of the various business ideas that prospered during COVID-19 was Neo banking. MSMEs relied mainly on conventional banks to provide the working money they required. Even while getting a loan is never simple, the epidemic made it even harder for small enterprises. During COVID-19, the Indian government implemented a number of relief measures to support enterprises, including the Emergency Credit Line Guarantee Scheme, although these efforts fell short of expectations. That's when Neo banks proved to be the best option for small businesses [22].

### **2.1 Research Gap:**

A lot has been spoken about Neo banks all over the world. There are many studies conducted in this area in other countries. However, the research on Neo banks in India is very much minimal. The Covid-19 pandemic has awakened all of us, and a paradigm shift has been seen by making people more tech-savvy in numerous fields. Since a significant portion of our population has traditionally relied on the conventional banking system, Neo banks are the way to go when artificial intelligence takes over nearly everything. This new shift in the banking system can bring in a drastic change in the mindset and perception of people towards banking and bring the excluded into the banking arena, as all individuals are now familiar with digitization and use digital services in day to day lives. Hence, there is a huge scope of research in this area, as Neo banks can be regulated and strengthened to enable ease of banking services at one's fingertips.

### **3. PROMINENT NEO BANKS IN INDIA :**

**Table 2:** List of Prominent Neo Banks in India, year of launching, functions, operating revenue and progress

<b>Neo bank</b>	<b>Launched in</b>	<b>Functions</b>	<b>Operating Revenue</b>	<b>Achievements</b>
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Jupiter	2019	Offers a debit card with a variety of features, as well as a dashboard to track transactions and examine balances, all with the goal of providing paperless and seamless financial services [23].	\$242.23 (Rs 18,000 in FY21) [24]	Partnered with Federal Bank and Visa. Daily more than 3,000 new saving account customers. As of October 2021, the app had received over 100 crore deposits from users. More than 10 million people have downloaded the app [24].
Niyo	2015	Provides a comprehensive package that includes a mobile app, multiple wallets on a digital account, and a multi-wallet card [25]	INR 24.30 crore in FY21	The business, which has a sales foothold in more than 20 Indian states and union territories, serves a customer base of 4 million people as well as more than 7,000 organisations [26]. The app has 10L+ downloads
Razorpay	2018	Designed specifically to automate laborious, repetitive financial chores for business owners and online merchants and to offer insights into cash flow. Additionally gives credit solutions, streamlines pay-outs, and provides ledger assistance for current accounts.	INR 841.2 Cr in FY21 [27]	In partnership with RBL Bank The app has 10K+ downloads
Open	2017	Gives access to services like bank accounts, money transfers, debit cards for offline and online shopping, cost control, and bill management. Especially beneficial for businesses and startups [28].	INR 15.6 Cr in FY21 [29]	With a \$1 billion valuation, it becomes the 100th unicorn in India. 2.3 million Customers make up the customer base. platform drives more than 2.3 million SMEs and manages more than \$30 billion in transactions annually. The app has 1L+ downloads
FI	2019	Created by Google pay creators. Provides a money management app for working professionals, loaded with a zero balance savings account and commission free mutual funds. One can connect their other bank accounts to see the balance and transaction history of all	INR 1.27 cr in FY 21 [30].	Partnered with Federal Bank crossed one million accounts recorded an average of 15 transactions every month per user against the industry average of 4-5 transactions [31]

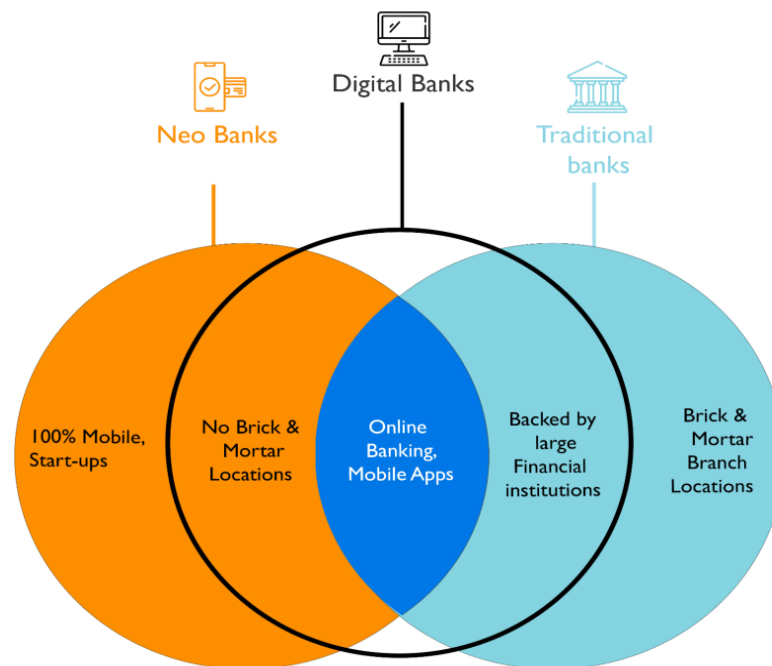
		the accounts.		
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In addition to this, there are other Neo banks in India such as 811 by Kotak, Digi bank by DBS, Freo Money, Go solo, Instant Pay, Neat, savein , Skrill, TransferGo, Walrus, Wise and Yono by SBI[32]

**4. DIFFERENCE BETWEEN NEO BANKS, DIGITAL BANKS AND CONVENTIONAL BANKS :**

Neo banks offer a range of customised services to customers using technology and artificial intelligence, whereas traditional banks adopt an omni-channel approach that includes both a digital and physical presence. One of the main differences between Neo banks and conventional banks is this. Although they lack the funding and clientele to do so, Neo banks are motivated by innovation to serve their customers more quickly than traditional banks [33].

A digital bank and Neo bank are not the same, despite appearing to be constructed with a mobile-first strategy and a focus on digital operating models. Digital banks are typically the online-only subsidiary of a reputable and regulated operator in the banking business, despite the fact that the terms are occasionally used synonymously. A neo bank, on the other hand, exclusively does business online, has no physical branches, and works either independently or with traditional banks.



**Fig. 2:** Differences and similarities between Neo banks, Digital banks, and traditional banks. <https://blog.accubits.com> [34]

**Table 3:** Difference between Neo banks, Digital banks and Conventional Banks.

Criteria	Neo banks	Digital banks	Conventional Banks
Regulated	Not Regulated	Regulated	Regulated
Customer Support	Online	Online	In-person, Partially Online
Banking license	None/Partial/Full	Partial	Full



Application Process	Online	Online	In Person
Bank Branches	No	No	Yes
Service Platform	Completely digital	Completely digital	Physical Banking Institution

### 5. PRESENT AND FUTURE OF NEO BANKS :

There has been tremendous growth in the banking system over the years and all efforts have been made by the policy makers and stakeholders of the economy to provide financial services to all segments of society at an affordable cost as well as at the doorsteps of the consumers, taking into consideration the accessibility, convenience, and quality of banking services.

The overall size of the Indian financial services market was predicted to be \$500 billion in 2021, according to a report by Blinc Insights. of which \$31 billion is devoted to the fintech business. The research also stated that India's rapid digitalisation is to blame for its enormous growth. The growth of the fintech industry is predicted to be 22% over the next five years [35]. Neo banks are one such step towards this agenda of including the excluded in the arena of banking services. Although Neo banks are not regulated, they have made a mark in the minds of customers all over the world and now in India. According to current sources, India's Neo bank startups raised more than \$230 million in 2020 [36]. We see that the transaction value in the Neo banking segment has reached US \$46.65 billion in 2022. By 2027, it is forecasting a total value of US \$ 122.30 billion with an annual growth rate of 21.26% (CAGR 2022–2027). In the Neo banking categories, the average transaction value per user in 2022 will be US \$4.46k. Globally, we can observe that as of 2022, the United States had the highest transaction value at \$1,075 USD. It is expected that by 2027, the number of users is expected to amount to 21.19 million users in India. As of 2022 the user penetration is 0.7% and is expected to hit 1.4% by 2027.

Neo banks are becoming incredibly well-liked. This is a result of its exposure to cutting-edge digital systems. Neo banks offer all cutting-edge financial services 24/7, swiftly, and more affordable. At the touch of a fingertip, customers can immediately access banking goods and services. Neo banks are the most suitable for the digital lifestyle that India and the rest of the globe are now adjusting to. It's advantageous for a fast-paced world to be able to bank without leaving your house or place of business.

### 6. ABCD ANALYSIS FRAMEWORK – NEO BANKING :

ABCD analysis framework is used to understand the advantages, benefits, constraints, and disadvantages of Neo banking [37] [38]

**Table 4:** ABCD Listing of Neo Banking model as per figure 3

S. No.	Advantages	Benefits	Constraints	Disadvantages
1	physical branches not required	can perform banking transactions from anywhere, anytime.	NO branch access	Lack of face-to-face Contact
2	Low overhead cost	Solely technology driven	cannot deal with complex transactions	Not regulated as traditional banks
3	Online transactions	Access to credit made easier	One should be tech literate	Risk of cyber crimes
4	24x7 operations	Boost to MSME	Security and Privacy issues	-

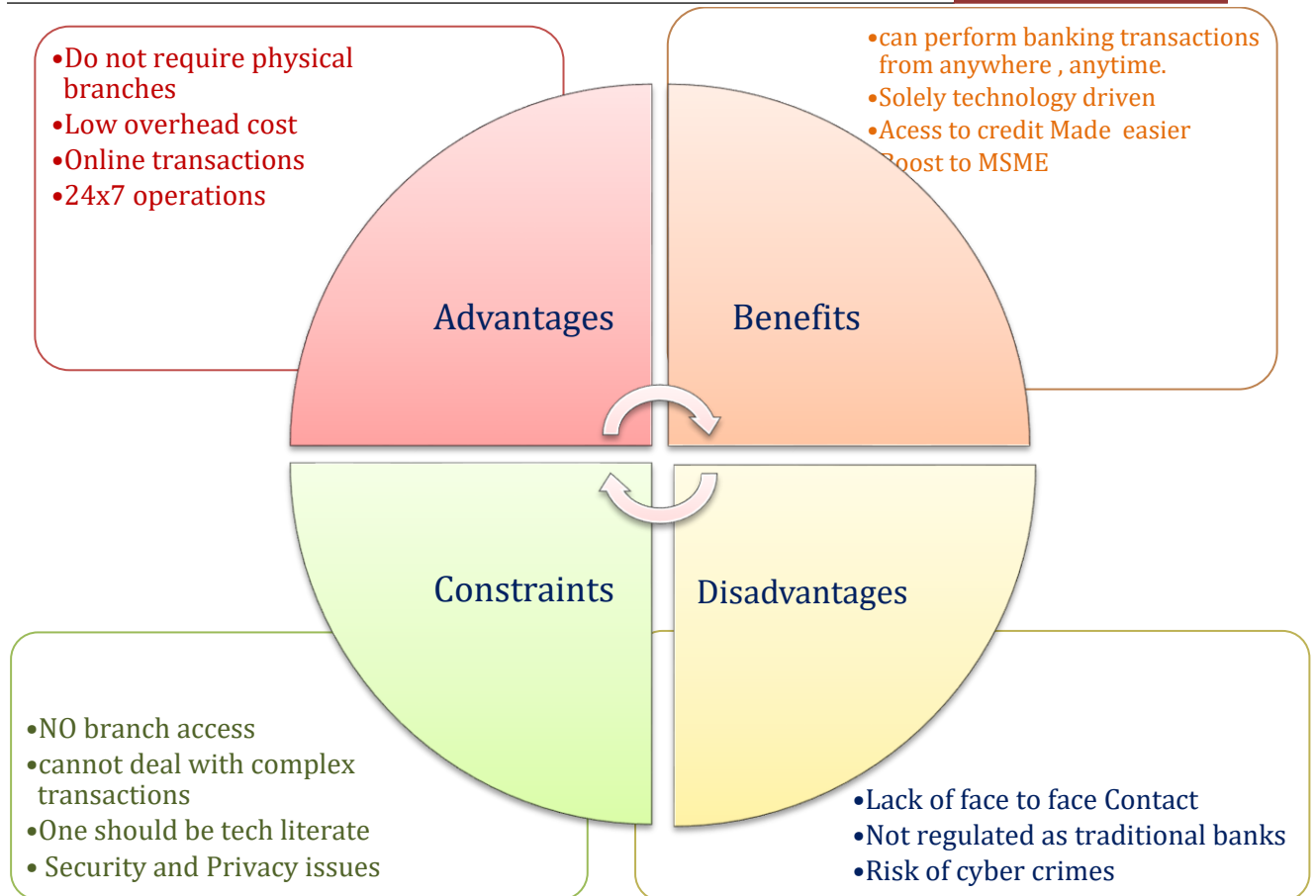


Fig. 3: ABCD analysis on Neo Banks

Source: Author

## 7. SWOC ANALYSIS ON NEO BANKS :

SWOT analysis was developed in the 1960s by Albert Humphrey and continues to be beneficial [39]. It is one of the most renowned tools for analysing the overall strategic position of a business environment. By definition, Strengths and weaknesses are considered as internal factors which are controllable, and opportunities and threats are external factors that cannot be controlled by the business. SWOC Analysis is instrumental in strategy formulation and selection. It is a strong tool, but it involves a great subjective element. It is best when used as a guide, and not as a prescription. Businesses build on their strengths, correct their weakness and protect against internal weaknesses and external threats. They also keep a watch on their overall business environment and recognize and exploit new opportunities faster than their competitors [40].

### 7.1 Strengths:

(1) **Low operating costs:** The absence of physical branches, fewer regulations, and credit risk limit a bank's operating costs to a minimum, boosting profits. There are no monthly maintenance fees, in contrast to conventional banks.

(2) **Fast services:** Since the services are performed online, money transfers, and lending transfers can be done on the mobile application within a few seconds.

(3) **Account Opening Made Simple:** Opening a bank account traditionally needs a lot of paperwork and documents. To open a deposit account, one must go to the closest bank branch. Neo banks make the process simple and eliminate the requirement that customers visit the office to open an account. With a few steps an account can be opened online. Although the account is held by a banking partner, transactions can be made through the app.

(4) **User-friendly and simple interface:** Neo banks offer a better client experience thanks to the incorporation of cutting-edge technologies. The websites and applications are responsive and user-friendly.

(5) **Benefit for MSMEs:** The loan disbursement process can be time-consuming, exhausting, and occasionally frustrating. Neo banks, on the other hand, bring a great deal of simplicity and demystify the entire process by lowering the amount of human labour necessary and by offering unified platforms to monitor the flow of funds. Additionally, other services like budgeting, tax preparation, and accounting are provided to MSMEs at affordable rates.

(6) **Higher rate of interest:** High rate of interest is provided on savings and fixed deposit accounts opened under neo banks.

(7) **24 X 7 support:** All-time chatbots are available for any queries in neo banks. Locking of accounts, freezing, and blocking of debit cards and credit cards can be done anytime at a click on the mobile phone itself.

(8) **Personalized offers:** Personalized offers and discounts are provided to the customers based on their income, spending habits and expenses.

(9) **International Payments:** Most neo banks provide international payments at interbank rates through banking and payments suppliers. Neo banks are considered as one platform for linking multiple accounts and apps.

(10) **Deep Insights:** Neo banks offer dashboard solutions for services like payments, payables, and receivables, and bank statements with greatly improved interfaces and helpful insights. Businesses with considerable expenses and the right amount of personnel can take advantage of these insights, lower costs, and increase productivity and income.

(11) **Smart Reporting:** Neo banks platform provides an updated balance of your account every time the account holder checks it. Through this, it is possible to see the details of all payments and transactions on a single app. They also provide an overview of expenditure and saving goals. Furthermore, reports can be customized as per the requirements, which enables one to get a clear picture of one's finances. This fosters individuals to make better insight-driven decisions.

### 7.2 Weakness:

(1) **Lack of human touch:** Since all the transactions are made online, customers might not be able to directly transact with a person.

(2) **Limited services:** Since neo banks lack banking licenses they are not able to offer all the transactions as offered by traditional banks.

(3) **Limited products and services offered:** Neo banks typically provide fewer products. Neo banks can encounter administrative challenges that prevent them from providing mortgages and other lending options.

(4) **No core banking facility:** Neo banks do not offer core banking facilities and hence HNI customers who prefer to do business in person may not find neo banks attractive.

### 7.3 Opportunities:

(1) **Services Offered:** Neo banks can widen the gamut of services offered as presently neo banks offer only a few banking services when compared to the products and services rendered by traditional banks.

(2) **Tech-savvy generation:** With a CAGR of 14.26%, smartphone penetration in India increased from 46.44% in 2019 to 60.63% in 2021. This might be a result of the COVID-19 outbreak. The rise in smartphone usage across the country has greatly aided Fintechs in enacting a much-needed transformation more quickly than anticipated. The COVID-19 pandemic outbreak also accelerated the development of Neo banks in India. Neo banks have fantastic potential as a result of this.

(3) **FinTech Ecosystem:** After China and the US, India currently has the third-largest FinTech ecosystem worldwide. However, due to a lower financial services penetration rate, India continues to be an untapped market. For India, these untapped opportunities and a favourable ecology offer significant growth potential.

### 7.4 Challenges:

**(1) Lack of regulatory Framework:** No fintech company has yet received a banking license from RBI, the regulatory body for the banking industry, to work exclusively as a bank without a branch. Neo banks may struggle to draw clients and prosper in the financial sector due to a lack of regulatory and compliance requirements.

**(2) Building trust:** Similar to regular banks, Neo banks may struggle to win consumers' confidence and trust. However, because they enable clients to try out the service before paying for it, models like premium subscriptions and memberships are popular in Neo banking in India.

**(3) Security:** Neo banks operate 100 percent digitally. This makes them susceptible to security breaches, cyber-attacks and such other online threats.

**(4) Lack of usage:** Neo banks have gained popularity and millennials' attention, but due to safety and security issues, they are still not being used widely. Digital illiteracy: Neo banks may not be able to meet the needs of non tech savvy customers or people from rural areas in India.

**(5) Dependence on other financial institutions:** Most of the Neo banks partner with banks and financial institutions for lending activities. Only a few fin techs have an NBFC as their parent to engage in lending activities.

**(6) Mitigate Risk of technology:** There are certain risks associated with using artificial intelligence to assess a client's creditworthiness for small ticket loans by analysing data from a variety of traditional and non-traditional data sources, including cybercrimes, software failures, transaction capacity restrictions, and privacy concerns for customer data. Data security must be taken into consideration.

## **8. FINDINGS AND SUGGESTIONS :**

Soon, Neo banks may replace traditional banks as consumers' main point of contact and a key source for daily transactions. Even though the first neo banks, Instapay and Razorpayx, appeared in 2013, India didn't completely adopt this digital type of banking until 2018. Neo banking was favoured by 7.7 million Indians in 2018, and by 2020, that figure will have tripled. 8 out of 27 Neo banks in India offer their customers unique payment options such as virtual debit cards, split cards, and credit cards.

A different platform for reaching millions of clients is social media. The average Indian spends 2.4 hours every day on social media. Additionally, there has been a steady increase in the usage of social media. Banks may benefit from revisiting their client segmentation, customer acquisition, and financial inclusion initiatives with the use of social media usage statistics. Social media can also be used to manage consumer complaints and their resolution.

We see a high mobile and internet penetration rate in addition to the largely unbanked population of India proves that India is a market ripe for Neo banking. The pandemic has also added to the relevance and ease of digitalization and the convenience of doing banking transactions online.

The development of digital banking will make cybersecurity a continuing concern for all parties. Increased resilience skills are required to ensure business continuity due to the growing usage of IT systems by banks, remote working arrangements, the rapid use of digital banking services by customers, and growing reliance on third parties for various services. Building effective defenses against cyberattacks and nefarious attempts to disrupt, disable, or destroy a computing infrastructure or steal sensitive data would be one aspect of this. The staff of banks would need to be continually upskilled. It would be even more important to keep learning and stay ahead of the curve.

It is important to examine the benefits of granting full banking licenses to banks by permitting them to operate completely online can boost financial inclusion in India.

The sudden surge of Neo banks in India indicates a lucrative market for technology-based platforms, enabling superior user experience with a secondary infrastructure of traditional banks to mitigate risk.

## **9. CONCLUSION :**

India's FinTech industry is expanding quickly because to a sizable market, a startup ecosystem that values innovation, and benevolent government policies and regulations. India's FinTech industry has the potential to provide workable answers to problems that traditional financial institutions confront, including low penetration, a lack of credit history, and a cash-based transaction economy. If regulators, market participants, and investors can cooperate, the banking and financial services sector in India may experience major change. Currently, FinTech service providers are changing how businesses and consumers transact on a regular basis [41]. Neo banks are paving the way to completely transform the

world of financial services. Neo banking can be used to advance the efforts made to address the issues with financial inclusion and the challenges of bundling banking services with other financial services. It is seen that between 2016 and 2020, the Neo banking market experienced a CAGR of 50.6%. The Neo banking industry is anticipated to grow at a CAGR of 53.4% to 2.05 trillion dollars by the end of 2030. If the central banks apply the regulatory framework and regulatory relaxations, Neo banks are expected to offer excellent commercial prospects. Digital transactions increased by 90% between 2019 and 2021, or from 2,32,000 to over 4,30,000. These figures show that Neo banks in India have a tremendous deal of room to expand. But it's also critical to comprehend how Neo banks are handling challenges with data security, regulatory compliance, and API integration. This study has examined the advantages and disadvantages of Neo banks and provided an outline of the trend of Neo banks in the financial services industry.

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