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REVOLUTIONIZING BANKING- EXPLORING THE NEO-BANKING PHENOMENON

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Abstract

Neo banks are a new type of financial institution that is emerging in India. These banks operate completely online, without any physical branches. The main goal of neo-banking is to provide customers with a seamless online banking experience. This means that customers can access all of the services offered by traditional banks, such as money transfer, lending, and investment, through an online platform. Neo-banks are licensed by banking partners to offer these services. They differ from traditional banks in terms of their popularity, non-banking services, licensing, and appeal to younger generations. This article will examine the functions, features, benefits, and challenges of neo-banks.

Keywords– Neo Banking, Traditional Banking, Functions, Benefits, Challenges

Introduction

The growth of e-commerce has led to digitization in various segments such as payment, insurance, and investments. From a global perspective, India has the largest number of subscribers to the internet, smartphones, and users of social media. There are about 759 million digitally active customers in India and the active internet base is expected to increase by 900 million by the year 2025 (The Hindu, 2023). The growth of digital

banking has been promoted by the public digital infrastructure of India and other regulations and policies. Neo Banking is a completely digital bank which does not have any physical branches compared to a traditional bank. The impact of the COVID-19 pandemic has also provided an opportunity for banks to innovate and provide sophisticated digital versions of their services.

The idea of neo-banking came into existence between the years 2013-15.

Some of the initial players who began offering neo-banking services were Monzo, Revolut, N26, and Atom Bank in the UK and Germany. In India, Niyo Solutions was the first fintech to venture into neo-banking in 2016.

Neo Banks can be defined as those banks which do not have any physical presence and interact with their customer base through online modality only using “Information technology” and “Artificial Intelligence.” Neo banks offer a seamless online banking experience to customers. “The Reserve Bank of India has not approved 100% of their online banking service and hence Neo banks can provide the service through the traditional bank partners” (The Economic Times, 2021). The various services provided by Neo banks are fast opening of accounts, cloud storage, ease of making and receiving payments, transfers and remittance solutions, and creditworthiness to attract micro, small, and medium enterprises (MSME).

Statement of the problem

Neo Bank is a fully digital bank, which some people may not be aware of. This paper compares traditional and neo-banks, examining their functions, features, benefits, and challenges.

Objectives of the Study

- (i) To understand the differences between traditional banks and Neo Banks
- (ii) To examine the functions of Neo Banks
- (iii) To understand the features and benefits of Neo Bank.
- (iv) To identify the challenges of Neo Banks

Research Methodology

The study is descriptive in nature. The data is collected from secondary sources such as research articles, books, websites, etc.

Literature Review

Bhasin (2020) in his study stated that financial technology start-ups are launching Neo banks in India to make banking simple, convenient, and meaningful. These organisations are partnering with traditional banks and offer better solutions by using artificial intelligence and machine learning.

Magrath (2020) stated that the majority of customers would be worried about the security of financial information in Neo Bank. There can be multiple layers of security to protect the customer’s privacy.

Palepo (2019) in his article mentioned that there are more opportunities for Neo Bank in India as they have a targeted customer segment who are provided with much more digital services compared to what traditional banks are offering.

Hopkinson et al. (2019) stated the various changes brought by neo-banks in the banking sector such as transparency, low-cost structure, end-end customer service, 24*7 customer service, and tools of money management. Investment has become convenient and one can invest in mutual funds without any difficulty. Anyone can switch in and out through neo-banks and get a higher rate of interest compared to a traditional bank.

D’souza (2019) in her article mentioned that there is a great opportunity for Neo banks in India and Micro Small

and Medium Enterprises to get benefits through various aspects such as loan advancement, ease of payment method, and creditworthiness.

Differences between Traditional Banks and Neo Banks

Attribute	Traditional Banks	Neo Banks
Popularity among people	Traditional banks are more popular in terms of accessibility, awareness, and connectivity.	These are completely digital banks and do not have any physical presence and are novel to the Indian market.
Non-Banking services	Traditional banks provide a range of services beyond banking, including personal banking, locker facilities, factoring, and ATM services.	Neo banks do not offer non-banking services and therefore are not preferred by customers who need a complete banking experience.
Banking license	Traditional banks have a clear banking license and enjoy the trust of customers due to their physical presence. They are regulated by the RBI and the Banking Regulations Act, which increases customer confidence.	Neo banks are not regulated by RBI and rely on banking partners who offer financial services and products.
Popularity among the younger generation	The older generation tends to prefer traditional banks over other types of financial institutions.	The format of neo banks, driven by technology, is popular among the younger

		generation, but may not be as convenient for the older generation.
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Functions of Neo Banks

Neo banks are completely different from traditional or digital banks. They also save a lot of money on operational and overhead costs as there is an absence of physical locations, branches, and employees. Neo banks are non-licensed fintech companies that collaborate with traditional banks which provide access to funds for lending and hold the customer’s funds. Neo banks perform various functions, including operating the application, product distribution, acquiring and serving customers, and ensuring customer satisfaction. These banks also try to improve the customer journey through the existing actions of the customers. A neo bank account can be opened by a user free of cost and is beneficial to first-time earners and young learners.

Features of Neo Banks

The various features of Neo- banks are as follows:

- (i) **Single screen transfers-** Neo banks provide an improved user experience and options for multiple payments that users can get from a single screen.
- (ii) **Options for multiple payments-** Multiple payments can be done in several ways and one of them is API (Application Programming Interface) integration with third-party services. There is also a provision to send money through a variety of channels such as A2A (Application to Application), P2P (Peer to Peer

service), ACH (Automated clearing house), and PayPal.

- (iii) **User Experience** – Neo banks also provide the users with some kind of interaction with their application to customize their banking experience such as digital personal notes near the receipts and to add a search engine to find answers to what is needed based on the personal notes.
- (iv) **Gamification**- The provision for gamification enables users to personalize their accounts while playing with the icons. Several icons are available which help users visualize the various aspects related to receipts/ banking messages.
- (v) **Easy account opening**- Account opening is a very speedy process in Neo banking and the user needs to submit a photo of the driver's license or any national ID card.
- (vi) **Biometric technology**- The various facilities available are fingerprint recognition, eye print or ear scanning which provide positive and exciting user feedback on social networking websites and application store reviews.
- (vii) **Real-time fraud detection**- In online banking, out of pattern behaviour and a change of location can be seen as evidence of fraud.
- (viii) **Online lending**- Neo banks also provide users with the latest to apply online for loans using predefined algorithms which track qualified candidates for online lending programs.

Benefits of Neo Bank

- (i) **Easy creation of an account**- It takes less time to create a Neo bank account compared to traditional banks.
- (ii) **Speedy Service** – The technology is very user-friendly and enables customers to navigate through the neo-bank applications in a very efficient manner. Transfer of money and lending transactions take very little time in a neo bank.
- (iii) **Low Cost**- There are no monthly fees for maintenance for Neo banks when compared to traditional banks. The following factors such as the absence of physical branches, minimal regulation, and credit risk contribute to lower costs and result in higher revenues.

Challenges of Neo Banks

- (i) Neo Bank is a completely digital bank and is not able to provide all the services offered by a traditional bank.
- (ii) The Neo Bank is not regulated by RBI (Reserve Bank of India) and must depend upon banking partners to provide service to the customer.
- (iii) As neo banks have no branches, there could be a lack of trust among people thinking that their money is not safe.
- (iv) Several security concerns could arise as neo banks depend on third-party service providers who do not have quality cyber security measures.

Examples of some Neo banks in India

- (i) **Niyo Neo bank**
Niyo is one of the earliest Neo banks in India and has approximately 2.5 million satisfied customers. This organisation aims to make banking smarter, safer, and simpler and offers a

range of essential products and benefits.

(ii) **FI Money Neo bank**

Federal Bank is offering funding for Fi Money, which is a neo bank in India. With Fi Money, users can open multiple savings accounts and earn interest rates up to 5.1% on their savings. Additionally, Fi Money users can receive a Visa debit card along with a secure balance account that offers a maximum limit of ₹ 5 lakh.

Conclusion

The banking industry is currently experiencing significant changes due to the advent of digitalization, changing customer expectations, and regulatory modifications. In India, customers are demanding customized and comprehensive financial management solutions. Financial literacy has increased among millennials and Generation Z, and as a result, neo-banks have become a popular choice for those seeking low-interest credit, high-interest savings, and seamless, low-cost services. The main question remains whether or not neo-banks will prove to be successful.

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