

# NEO BANKING: AN INNOVATIVE WINDOW OF BANKING ARENA

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## Abstract

*These days we see the onrush of online applications and digital technology. Each global community, be it business or household, are seeking alternation or adaptation to the same. Hitting the nail on the head, neo banks has swiftly and smoothly entered in the vacant spot and is progressing every day in this modern era. Without holding any physical identity, it is now domineering the digital banking industry by being a super effective mode of online banking. The aim of the study is to vividly observe the efficiency, demand, growth trend, benefits, challenges, the present scenario and future projection of neo banks. Journey of neo-banks specially in India has been shown through this study. Also a comparison is put forth with well-established traditional banks and challenger banks. Furthermore, comparison about the neo banking strategies has been systematically put up between Indian neo-banks with global neo-banks considering three parameters – customer, product and process and partnership. Neo-bank is the best example of demand meeting the supply as tech-savvy customers are able to benefit from the high-end technology offered by these virtual banks.*

**Keywords:** Neo- banks, Traditional banks, digital Banks, fintech firms, tech-savvy, challenger banks.

## INTRODUCTION

Recently Neo-banking is grabbing spotlight on the news and media and is gaining momentum. It is the buzzword of the fintech community lately. But how much do we know about it?

A Neo Bank sometimes pronounced as online bank, Internet-only bank, digital bank or virtual bank is a direct bank that operates online exclusively and has no physical branch or network unlike traditional banks.

It is attaining importance in the fintech industry in the country as well as at global level. The primary motive of Neo-banking, the new player in the market, is to simplify financial services to the greater extent for its customers.

These organizations are fintech firms that offer digital and mobile-first financial solutions payment and money transfers, money lending and many other services. It's a wide umbrella of financial service providers who intend to cater to the needs of the present day's tech-savvy customers.

## REVIEW OF LITERATURE

it enumerates the scope of neo banking in India. Analysis of the study infer that there is a significant positive response for the existence of neo banks and the neo bank's approach of being totally online and virtual, is also been accepted and appreciated by the customers.

states that neo banking is a combination of Information Technology and Artificial Intelligence. The aim of neo banks is to provide hassle free services to customers and has filled the gap between the need of customers and the services that are offered by the regular banks.

this article showcases the growth, operation and structure of Neo banks. The author states that, Application Program Interface –API is the key technology used which enables these banks to offer low cost and value added services as against the normal banks.

proclaims that neo banking is the future of banking industry and it is providing number of new user friendly interfaces and services and banking on the digital technology to satisfy the customers in the best possible manner. The study highlights that neo banking is aiming to have a cashless society in the near future.

emphasis on the importance of banks in the European country France and observes that 99% of French population have bank accounts. Neo Banks are serving the demands of current modern age population with easier access and cheaper banking products and services.

the paper analysis and studies the trend of new banking in this new age of digitalization. The growth of 50.6% CARG for the period of 2017-2020 is recorded for the neo banks in India.

## RESEARCH METHODOLOGY

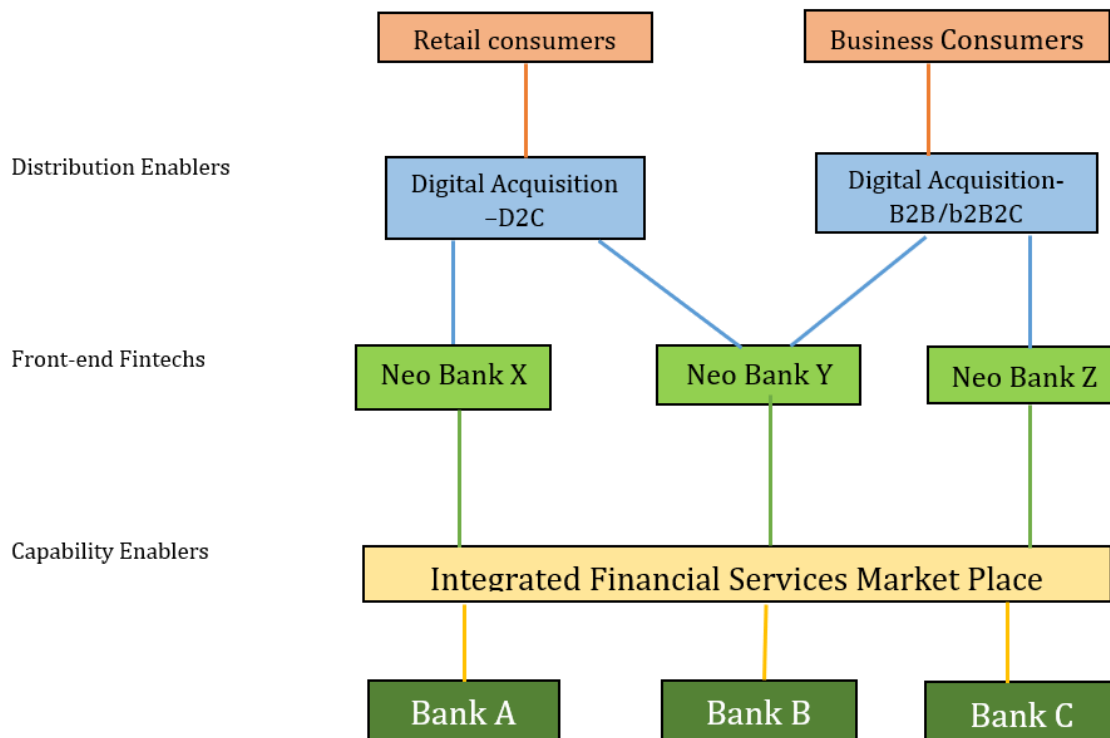
This study is conducted using Qualitative and Quantitative data from various secondary sources. The research design is Descriptive in nature. A comparative method is used to compare the situation of Neo Banks with Traditional Banks and challenger banks. Strategies for operation adopted by neo banks at global and domestic level is also highlighted.

## OBJECTIVES OF THE STUDY

The study aims to fulfill the following objectives:

1. To understand the structure of Neo Banks.
2. To compare Neo Banks with traditional Banks
3. To compare Neo Banks with Challenger Banks
4. To compare the operational strategies adopted by Neo Banks in India and at global level.

## OPERATIONAL STRUCTURE OF NEO BANKS



Source: Author's graphical presentation.

## NEO BANKS VS TRADITIONAL BANKS

Traditional banks are much older than these newborn banks and hence traditional banks have more advantages over these Neo banks in terms of funding and enjoying age-old customer trust. However, these conventional banks are finding difficult to catch up with the growing demands of the tech-savvy generation.

Basically Neo Banks are digital banks with no physical branches, cutting down the infrastructure and overhead cost to a very large extent. Hence they are in a position to give cheaper alternatives to their customers

compared to traditional banks and that too in an efficient manner. Their operating cost is minimum and they make optimum use of Artificial Intelligence and technological leverage and thus they are able to offer personalized and tailor made services to the customers. In India, however, these firms are not licensed by the RBI, so they have to rely on bank partners to offer licensed services.

Private entities investors and Venture capital are eyeing an opportunity in this sector and for such banks are thus, showing interest in Neo-banking platforms. According to a report by a fintech research firm, in 2020 Neo-banks' startups raised more than \$230 million in India alone. Also the as of 2020, the smart phone penetration rate of India was 54% which is likely to increase to 96% by 2040. This shows the amount of scope these Banks has in India in the coming years.

### NEO BANKS VS CHALLENGER BANKS

There is quite a confusion in the minds of many people around the world that neo banks and challenger banks are one and the same. However, there exists a fine line of difference between them, though they operate on more or less the same principles.

When neo banks receive banking license from the respective regulatory authorities they turn into challenger banks. Similar to neo banks in respect of having no physical branches, these challenger banks operate with proper banking license and can offer all the services that are provided by a traditional bank. They are small digital spins created by parent traditional banks to bank on the tech-savvy target audience.

Challenger banks are generally seen in western countries by we have such banks in India too. Some of the examples of challenger banks in India are 811, InstaPay, Airtel payments bank, Jio payments bank, Paytm payments bank. The following distinction will make clear the existing confusion:

	NEO BANKS	CHALLENGER BANKS
Business Model	Similar to startups but more driven by technology	It includes elements of both traditional banks and neo banks
Regulations	Not regulated by banks. They follow RBI and Government Regulations.	Regulated by banks
Ideal for	Ideal for small and medium sized Businesses	All- sized Businesses
Fees	Cheapest as compared to challenger banks and traditional banks	Comparatively higher, but lower than traditional banks
Legal Remedies	No legal remedies are defined in case of controversies	legal remedies are well defined in negative situations.

### Framework for analyzing neo banking strategies – global vs Indian Neo Banks.

Parameters	Levers	Global Neo Banks	Indian Neo Banks
Customer	Customer segment targeting	They continue to focus on both individuals and MSMEs. Focus on niche segments such as teenagers, families and millennials is rising significantly They are focusing on customers in the age group of 10-20 years.	They focus on retail and MSME segments. There is an increased focus on providing services to the underserved segments such as teenagers, gig economy workers, blue-collar workers and SMEs. Multiple neo banks are coming up with service offerings targeted towards small businesses by providing them with a portfolio of financial services.
	Customer acquisition	Major acquisition channels of neo banks are online, driven by them and their partner platforms.	A mix of offline and online acquisition channels that vary as per the target customer
	Customer experience	Innovative best practices are followed in terms of flexibility, self-service capabilities, customer needs and personalization.	Neo banks are focusing significantly on customer experience as they cannot serve them directly due to the absence of standalone licenses. Hence, they are looking to provide integrated financial services.
Product	Financial	Neo banks across multiple countries	Neo banks in India are dependent

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	services product innovation	are operating with their own banking licenses and offering a number of core banking services. They are also innovating these core banking services to enhance customer experience.	on traditional banks to offer basic banking services. Hence, the expansion in services is driven by offering other financial services of their own.
	Non-financial services product synergies	Multiple non-financial services players are expanding into the neo banking space	Non-Fin Tech players in India with a substantial retail and MSME customer base can expand their offerings towards neo banking.
	Process and channel	Digital is the primary channel for most global neo banks.	Indian neo banks continue to use an offline + online model based on customer segments.
Partnership	Manufacturer strategy	A number of global economies have announced separate digital banking licenses for neo banks.  Multiple neo banks operating on a standalone basis with their own CASA services have achieved significant scale	Indian neo banks do not have the license to offer CASA services. Hence, partnerships with traditional banks form a core part of their operations.

Source: Author's Tabular presentation.

According to the reports of statistica the neo banking market size at global level was at \$47.39 Billion in 2021 and is projected to grow at a gigantic rate of 53.4 percent (CAGR) from 2022 to 2030.

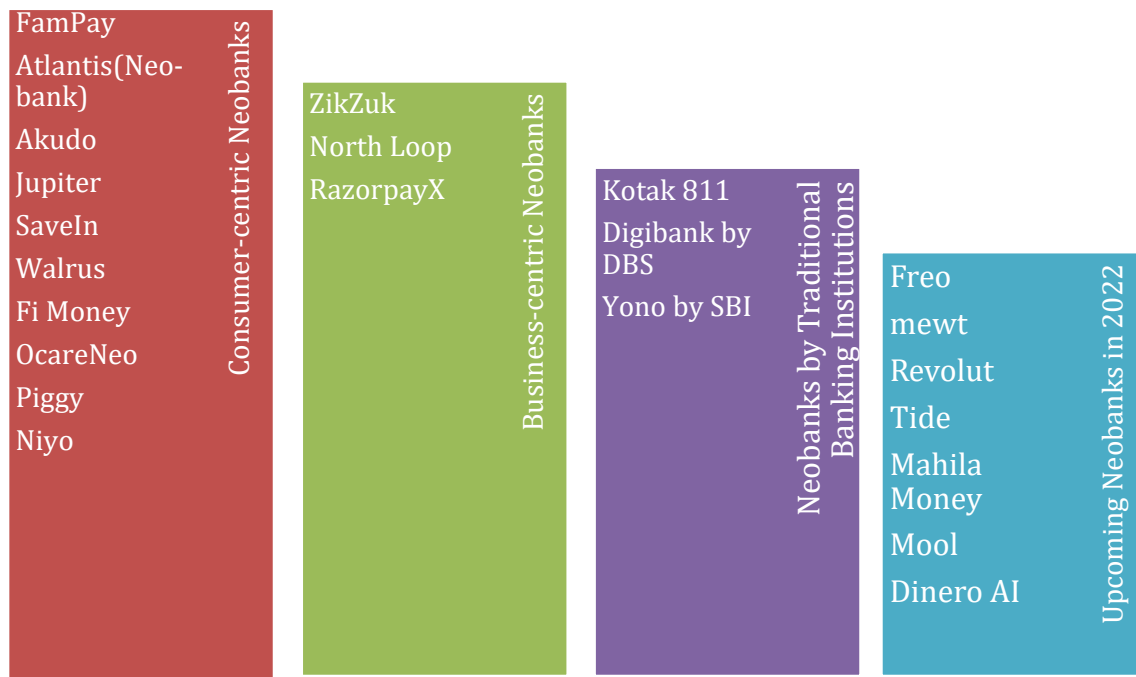
### GROWTH OF NEO BANKS IN INDIA

Mostly, due to the outbreak of Covid-19 pandemic, the penetration of smartphones has scaled to 60.63% in 2021 as against 46.44% in 2019 in India. Another report of economic times it estimates the smart phone penetration to increase to 96% by 2040. This has paved a way for the significant rise in the fintech companies and other such institutions to take advantage of the demands recreated for a need of quicker and cost-effective services. Hence this boosted the growth of neo banks in India as well. People from all ages and groups are educating themselves and others to become tech-savvy and to use the services provided by neo banks.

Neo banks target these main segments of customers:

- The high-end consumers who value and aspire better and seamless banking experiences.
- The unbanked individuals who do not have access to banking services and have unstable flow of income.
- The working class who are looking for smarter ways to manage and grow their finances and become financially independent.
- Micro, small and medium-sized enterprises (MSMEs) is another segment that neo banks are targeting as MSMEs account for near about 95% of the economic segment of the country.
- Help the Women entrepreneurs to grow and become financially strong.
- Contractors, free lancers who need short term capital to cope up their cash flow.

### List of Neo Banks on the basis of purpose



Source: Author's graphical presentation.

This non-exhaustive list is informative about the various Neo Banks operating in India.

As per the economic times data, at a compound annual growth rate (CAGR) of 47.1% the size of the global Neo-banking is estimated to hit \$ 333.4 billion by 2026, but like all financial institutions Neo banks have their own pros and cons which are enumerated below:

#### Benefits of Neo Banks

Exclusive value proposition is the USP- Unique Selling Point of Neo Banks in India. some of the pros of neo-banking over their counterparts is listed below:

- Highly convenient and user-friendly banking services
- Provide financial management services
- 24x7 customer support
- Cost-effective alternative to challenger and traditional banks
- Built for a niche audience
- Offers digital banking services, such as, savings accounts, prepaid cards, bill payments, and money transfers
- High-security features
- Simple and user-friendly mobile app interface
- Transparent structure with real-time notification feature
- Offers convenience as services are through an app
- Speed in opening account and processing requests
- Products are inexpensive with no monthly maintenance fees so low cost.

#### Pitfalls and Challenges for Neo Banks in India.

Neo banking sector is still in its infancy and is facing all problems of early age like the teething trouble and growing pains some of which are highlighted below:

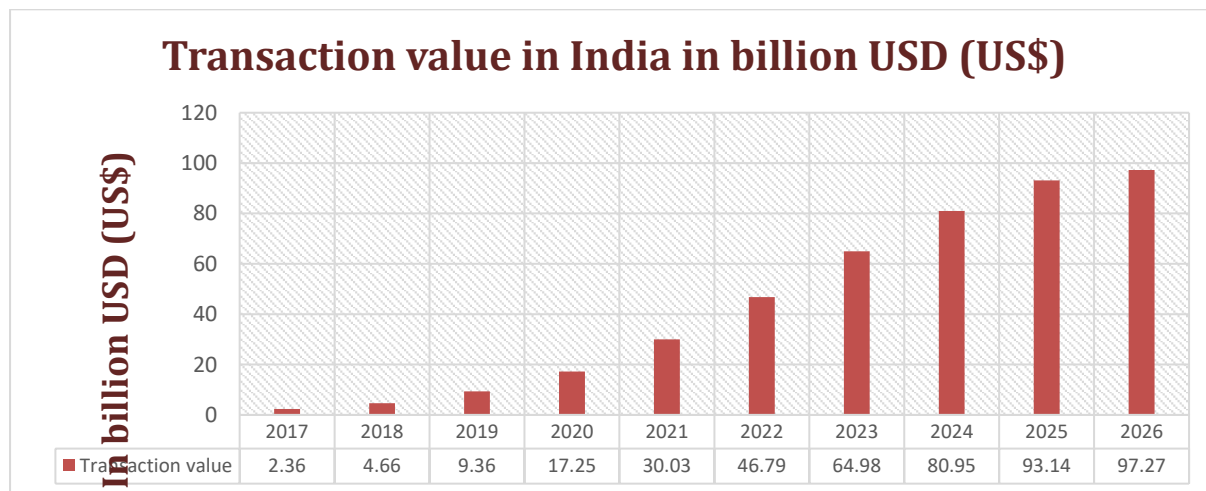
- Lack of regulatory clarity: There exists lack of regulatory acceptance for neo banks as RBI does not yet recognize these banks entirely.
- Dependency: They have to depend on the incumbent banks to get established and thrive.
- Quality of management: Data privacy is the matter of concern in case of operation of Neo banks as it may lead to frauds and failure, since there is passage of personal data of customer amongst the different entities involved in the entire network.
- Technology and Security: before partnering with the neo banks the conventional banks may expect the infrastructure and security practices of international standards. This involves huge investment cost on the part of neo banks.



### Future prospects (Way Ahead)

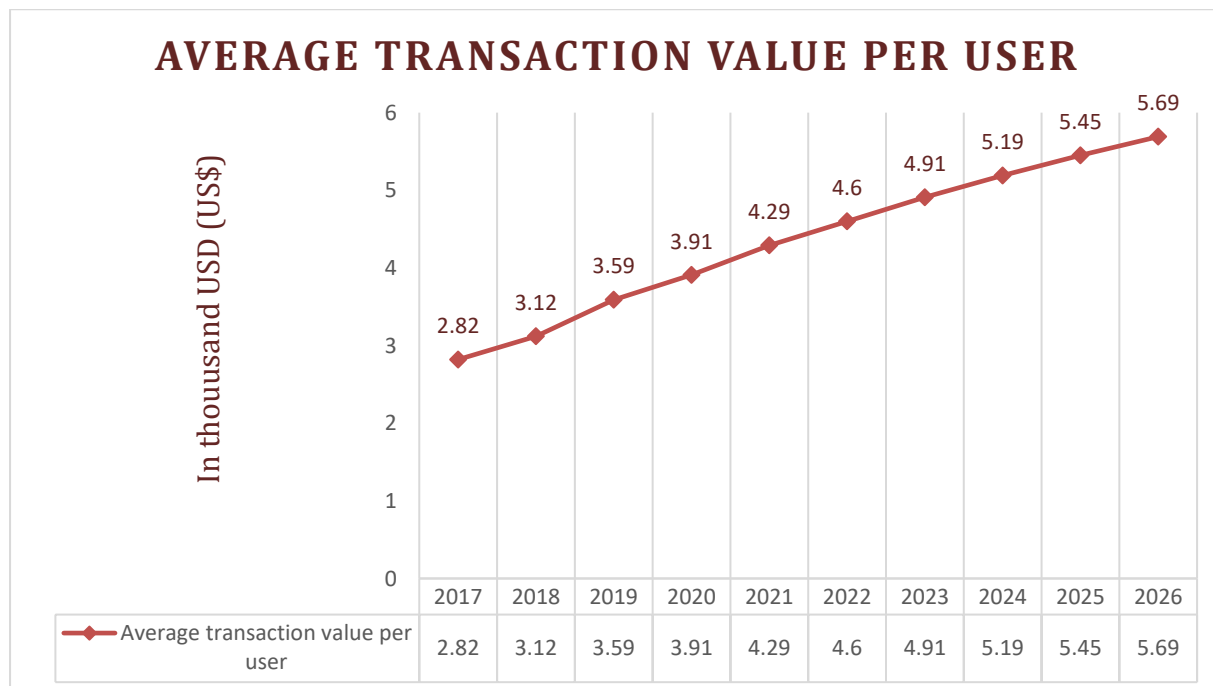
According to Niti Aayog November 2021 report, “The future of neo banks is expected to change exponentially” It proposed setting up full-stack” digital banks” in India which will rely entirely on the internet and shall offer services online without any physical branches.

Despite the concept of neo banking being seemingly new, the future looks quite prosperous, as the business enterprises and the youth of today are seeking services of neo banks more than their traditional counterparts. Although neo banks started around 2013 with the advent of instapay and RazorpayX, it was only in 2018 that this neo banks started gaining momentum on Indian soil. By 2018, these type of banking was favored by 7.7 million of the India’s population, which tripled by 2020. And with online business and e-commerce increasing with frog leap, the future of neo banks looks pretty promising in India.



Source : www.statista.com

The transaction value in the Neo banking segment is projected to reach US \$ 46.79 billion in 2022. The transaction value is expected to show an annual growth rate (CAGR 2022-2026) of 20.08% resulting in a projected total amount of US \$ 97.27 Billion by 2026.



Source : www.statista.com

The average transaction value per user in amounts to US \$ 4.60 thousand in 2022 and by 2026 the number of users are expected to reach to 17.11 million and average transaction value to 5.69 thousand in the same year.

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Considering the global level, the highest transaction value has been registered in United States at US \$ 1228 billion in 2022.

### CAN NEO BANKS REPLACE TRADITIONAL BANKS?

While the future of neo banks in India looks bright it is unlikely, though, that neo banks can replace the traditional banks in the country entirely, majorly for three main reasons,

First, Neo Banking is a new concept, having a limited range of product and service to offer at present, hence they have long way to go to cope with the widespread spectrum of the traditional banks' laid foundation of services. Traditional banks have more popularity and creditability in the country. To beat this is a distant thought.

Second, running on entirely digital basis is very advantageous but sometimes may not relate to that segment of population who are away from modern technology as well as who believe in face-to face interactions when it comes to financial matters. One can find traditional banks in the remotest villages which do not have internet facility.

Third, without having a full-fledged license, these neo banks are still dependent on their partnership with the parent traditional banks.

### CONCLUSION

We widely see the perks of using computer technology for working market. Certainly, fast-paced development could be seen and people get more time for creative thinking as the manual, calculus, basic hours-long works are done by it. But we can't take the bait languidly, because if computer miss-interprets commands or loosens in perfect working or technology shuts down, we have to pay high prices and face massive repercussions. Therefore, online banking can be a handy tool for our hasty world, but it needs to be monitored with great precision and supervision. The concept of neo-bank appears to be the 'philosophers stone' inclining to turn the metallic state of traditional banks into extravagant financial institutions. But how far it could keep its excavation going with the face of traditional banks still at forefront, and how would it accomplish its ivory tasted targets is the question of the century.

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