

NEO BANKS – Opportunities and Challenges

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ABSTRACT

The banking sector is experiencing a metamorphic transformation over the last decade from accepting deposits and lending to the introduction of various new products and services. This study aims to bring out such new development in the banking sector called neo banks. This article is descriptive in nature. The present study attempts to describe the concept of neo banks, the difference between a neo bank and a traditional bank and the challenges faced by neo banks.

Keywords : Neo Banks, Traditional Banks.

I. INTRODUCTION

Neo bank is a new concept emerging in Indian Banking Sector. It is gaining importance in fintech industry across the globe. The concept of neo bank took its birth in European countries. Bill Gate's 1994 commented, "Banking is necessary, banks are not," perfectly exemplifies the banking industry's digital transition. Neo banking is a concept where there is no existence of a physical bank as such. It is a complete digitalized platform which deals with banking transaction at the high-security level.

More and more people are beginning to use digital solutions in a variety of areas, including payments, insurance, and investment, as e-commerce expands. It is obvious that this shift will also affect the financial industry. India is second globally in terms of social media users, smart phone users, and Internet subscribers. 600 million people in India use digital

devices, making it a sizable market for online banking services. This development has been made feasible by the public digital infrastructure in India as well as more laws and regulations.

II. LITERATURE REVIEW

Mr. Ganeshkumar (2022), in his article gives a brief glance over the overview of neo banking in India. The study focused on the growth of the Neo Banks and its operations in India. The Bengaluru-based start-up Finin is the first full-fledged consumer Neo-bank in India. Finin in partnership with State Bank of Mauritius (SBM) issuing instant personalized savings account with Visa Debit Card. The main feature of Neo Bank is they don't have any physical presence in their operations. Neo Banking having a bigger opportunity in the current scenario as the customer is averting banking activities in branches.

Kavya Shabu and Dr. R. Vasanthagopal (2022), in his paper intend to study the scope of Neo banking in India and also the opportunities and challenges from the customer perspective. Content analysis and the thematic approach of all the customer responses through twitter are also analyzed to get estimation on the prospect of receiving customers and anticipation of their approach, whether positive or negative for the Neo banking system in India. The analysis was found to have a high positive response and approach from neo bank users.

Mrs. Yasmin. A. Barodawala (2022), intends aim of the study is to vividly observe the efficiency, demand, growth trend, benefits, challenges, the present scenario and future projection of neo banks. 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.

Elroy Monis and Ramesh Pai (2023), 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. 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.

III.OBJECTIVES

The following the various objectives of the study:

1. To understand the concept of Neo Banks.
2. To compare Neo Banks with traditional Banks.
3. To state the opportunities to Neo Banks.

4. To enumerate the challenges faced by Neo Banks.

NEO BANKS

Neo banking is the next revolution in the banking industry. Neo banks have grown over the past decade in a big way and it is going to happen more so in the future. Neo bank is basically a kind of digital banks without any branches and no physical existence. A neo bank is a type of direct bank that operates exclusively using online banking without traditional physical branch networks that challenge traditional banks.

Benefits of NEO BANKING

Some of the benefits of Neo Banks are as follows:

- i. It facilitates hassle-free account creation.
- ii. It assists in seamless international payments.
- iii. It is user-friendly interface.
- iv. It has smart reporting system.

Limitations of NEO BANKING

The following are the limitations of Neo Banks:

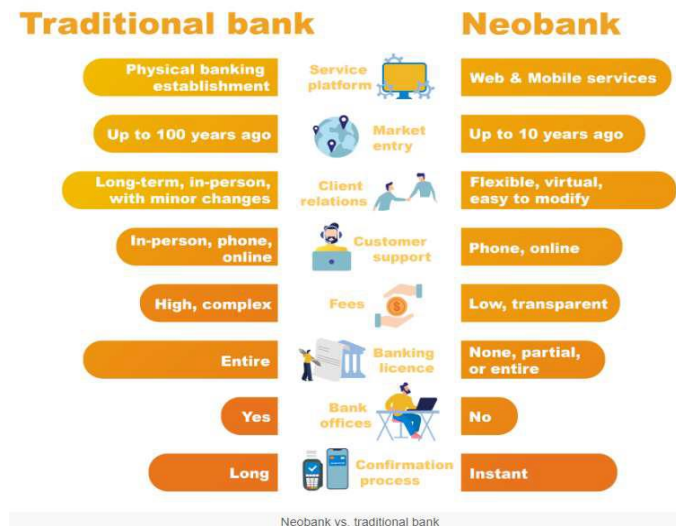
- i. It provides limited free services.
- ii. There is a fee for Cash withdrawal.
- iii. There is a lack of cash operations.
- iv. There is an absence of physical presence.

Comparison between Neo Banks and Traditional Banks

In terms of service platforms, neo banks are different from traditional banks; for instance, neo banking users use online and mobile services, whereas traditional banking customers must still visit offices. Traditional banks have greater benefits over these Neo banks because they are older and have more established client relationships than these newer banks. These traditional institutions are having

trouble keeping up with the escalating demands of the tech-savvy generation, though.

Neo Banks are essentially online financial institutions with no physical locations, which significantly reduces the need for infrastructure and administration expenses. As a result, they may provide their clients more affordable options than traditional banks while still doing so effectively. Because they enjoy low operating costs and utilize technology and artificial intelligence effectively, they can provide consumers with specialized services that are catered to their individual needs. These companies must depend on bank partners in India as the RBI does not license them. Therefore, they cannot provide licensed services on their own.



Neo banking: Opportunities

Some of the major benefits of neo banking highlighted by the banks themselves and research papers are stated below:

i. **Simplified and hassle-free mode of account creation:** The consumer may complete the document submission, verification, and account creation with acknowledgment all online from any location at their convenience, and the account is created quickly.

ii. **International payments made easy:** Neo banks offer worldwide debit cards since they are an improved version of traditional banks. Therefore, advice for tourists with additional ancillary benefits is to use these banks.

iii. **Instant transactions:** All payments and transactions are immediately reflected on both parties' accounts; this is now a standard aspect of fintech, but neo banking has made this capability available for significant business-level transactions. Through a mobile app, it is very simple to find and revoke if absolutely necessary.

iv. **A complete banking assistant:** The majority of neo banking organizations have created a feature to offer the customer individualized financial management advice, tips for increasing account balances, and tools for setting monthly savings or spending goals, all while utilizing sophisticated infrastructure and avoiding the challenges of manual calculation and comprehension. This is done in accordance with all ethical guidelines and with extreme caution to prevent data sharing or leaking.

v. **Insights on spending:** Similar to the prior point, autocodes running in the backend assist customers in regulating and tracking their own spending habits by providing output on areas where expenditure is most pressured. Additionally, it enables analysis of monthly comparative data as well as spending categorization based on several factors. The major issue of everyone in daily life wondering where they had spent all of their money has been resolved by this.

vi. **Innovative saving tools:** For many people, saving is always difficult, especially when they have to make only minor modifications or sacrifices.

Neo banking: Challenges

The major challenges faced by Neo Banks are listed below:

i. Lack of Personal interaction:

Being entirely online is viewed as a benefit in overhead and cost reduction; yet, it is achieved by sacrificing all forms of in-person engagement and involves no branches.

ii. Cash payments:

Even though Indians frequently engage in online shopping and transactions, cash on delivery is still the preferred method of payment at payment gateways. As a result, neo banks must address the needs of providing physical cash and alternative sources of income rather than through payment gateways.

iii. Limited financial products:

Neo banks' financial product offerings are likewise restricted because they lack a full banking license and are registered under another registered bank. Neo banking currently does not offer several loan and deposit options. According to the expansion, acceptance, and openness of neo banking, they still need to be developed.

iv. Safety and Security:

The security of their money is one of the clients' top worries when it comes to any online or mobile transaction. Neo banking is obviously very secure and is governed by a local regulatory organization. Increased client awareness and confidence are what need to be prioritized.

v. Inconsistency in Regulation:

The Reserve Bank of India neither accredits nor oversees the new bank. The commercial agents (CBs) of traditional banks, which are frequently seen as organizations that support financial

inclusion in isolated regions of the country, are quite uncommon among new banks. Companies are anticipated to have a big number of retail locations to carry out their ML operations.

vi. Technology and security:

For conventional banks to do business with new banks, their security procedures and infrastructure must adhere to international standards. To provide new products and services, anchor institutions will need to update and modernize existing systems and procedures.

vii. Data protection:

To be effective, any digital good or service needs to safeguard user data. The viability of new banks will be dependent on customer information and cross-selling products due to the low service fees. The Personal Data Protection Bill may have an impact on this capability.

IV. CONCLUSION

The idea of a neo-bank seems to be the 'philosopher's stone' that will enable traditional banks to transform from their metallic state into opulent financial entities. The question of the century is, however, how far it could continue its excavation while traditional banks' faces remained front and center, as well as how it would achieve its ivory-tasting aims.

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