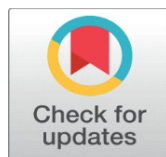


## A STUDY ON CUSTOMERS PERCEPTION TOWARDS NEO BANKING SYSTEM

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**Received** 26 March 2023

**Accepted** 27 April 2023

**Published** 12 May 2023

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**DOI**  
[10.29121/granthaalayah.v11.i4.2023.5116](https://doi.org/10.29121/granthaalayah.v11.i4.2023.5116)

**Funding:** This research received no specific grant from any funding agency in the public, commercial, or not-for-profit sectors.

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### ABSTRACT

The inception of digitalization in the economy throws light on the development of Neo banks. Neo banks have created evolution in the banking sector which bridge a gap between the services that traditional banks offer and the evolving expectations of customers in digital age. The social acceptance of Neo Banking and the customer's perspective matters a lot for the further empowerment of this Neo banking system. The pandemic situation further pushed the citizens towards Neo banking as it provided convenience and contactless access towards banking services. So, the present study was undertaken to investigate customer's perception towards Neo banking system and to understand the significance and limitations of Neo banks in digital age. Data has been collected from both primary and secondary sources to meet the objectives. The paper strongly believes that there is hope for Neo banks to replace traditional banking system in future.

**Keywords:** Digitalization, Banking, Attitude and Perception

## 1. INTRODUCTION

The world around us is becoming more digitally and technologically empowered day by day. Digital innovation is transforming financial services in every sector. The most recent innovation in the banking industry is the idea of neo-banks. Many users have opted for this new, tech-driven, and innovative banking model in recent years because it offers something different and easier to use. Due to the advent and fast phase growth of technology Neo banking took its prominence globally in the year 2017 as a Challenger for traditional banking system. Currently, Neo -banking in India is at a nascent stage where some positive developments have happened in the last few years. As they provide numerous benefits to meet the

changing needs of new-age users, neo banks are increasingly becoming the preferred option for many customers. They focused on making banking services more user-friendly and quickly in meeting their needs.

A Neo bank is a digital bank that doesn't have any physical locations. Neo banking is totally online, as opposed to having a physical presence at a certain place. Neo banking refers to a broad range of financial service companies that primarily cater to tech-savvy clients. A Neo bank is essentially a fin-tech company that offers digital and mobile-first services including investments, payments, debit and credit cards, lending, money transfers, and more.

In the past few quarters, there has been a significant injection of capital into the Indian Neo banking sector, making it one of the most profitable possibilities for fintech businesses. According to Inc42's 'State of Indian Fintech Report, 2022. InFocus: Neo banks', Indian Neo banking startups raised \$869 million across 48 deals between 2014 and 2022. These factors have seen Neo banking become a huge market opportunity in recent times [Shankar \(2023\)](#). According to the Inc42 report, Neo banking in India is a \$48 billion market opportunity in 2022 and is set to increase 281% to reach \$183 billion by 2030. Neo banks will account for 9% of India's total fintech market size in 2030, which is estimated to reach \$2.1 trillion by then. [Hemant \(2022\)](#)

## 2. OBJECTIVES OF THE STUDY

- 1) To understand the merits and demerits of Neo banking over conventional system of Banking.
- 2) To study the customer perception towards Neo banking system.

## 3. REVIEW OF LITERATURE

- [Asma et al. \(2022\)](#) Stated Neo banks enables seamless banking with numerous services to bridge the gap between traditional banking services and customers. Neo banks were considered as they were convenient in payments, collection process, tax compliances and to file indirect taxes.
- [Jaiswal \(2022\)](#) Made a comprehensive study of Neo banks model and consumer perception in India. The study found that the consumers were ready to welcome the bank with no physical existence and they were unaware of all the functions of the Neo banking system. Hence, the study suggested to create awareness campaigns and programs to provide insights regarding various benefits and facilities of new events.
- [Tiwary \(2022\)](#) Studies the structure of new banks in India and made a comparison between you wise and traditional banks. It was stated that new banks virtual banks which relied on their parenting banks the function in efficient manner. It was noticed that new banks were cost effective in its operation and were technology oriented which provided 24/7 access for its customers.
- [Temelkor \(2020\)](#) Discussed the differences between traditional Bank model and fintech based digital brand and Neo bank models and stated that innovations created distribution in financial technology where its impact was seen in operations of the bank. It was concluded that Neo bank business were in its early stage and have to overcome obstacle to conquer potential market.

- [Agarwal \(2020\)](#) The article covered how the financial sector is developing swiftly. With the use of the case study of e-KYC and UIDIA, they have distinguished between digital banks and Neo banks. They have emphasised some of Neo Bank's advantages as well as its drawbacks and shortcomings. In order to describe the Neo banking structure, how they deliver end-to-end service, as well as the benefits and drawbacks of Neo banks, the author has leaned on this article.
- [Palepu \(2019\)](#) Discussed the regulatory framework for Neo banks in India with the reasons for restrictions imposed by RBI to limit its certain operations. Further it was stated that the banks were partnering with Neo banks they had potential to build differentiated business proposition He also mentioned that Neo banks have more potentiality in India since they have a future consumer base along with the various digital services, they are offer which traditional banks cannot offer.
- [Gudova \(2018\)](#) This investigation examines the similarity or difference between a digital bank and a Neo bank. How will Neo banks use artificial intelligence? What is it? Is using Neo banks secure? According to the report, the thought of an online bank may be frightening. Digital banks and Neo banks might arise when online banking's capabilities increase with the addition of new app features and useful online services by banks.

#### **4. RESEARCH METHODOLOGY**

This study is exploratory in nature. Both primary and secondary data sources are used for the study. Primary data is collected from a survey method. Structure questionnaire on the subject will be prepared and canvassed among the selected respondents with the sample size of 180 people residing in Mangalore, Karnataka using snowball sampling method. Collected data is analyzed through percentage method. The secondary data is collected from the official publications of RBI, NPCI, various reference books, journals, websites, and other publications.

#### **5. SCOPE OF THE STUDY**

Banking and financial instruments are ever progressing as per the need of the economy. New banking is one of the evidence of this progression with the fusion of information technology and artificial intelligence. With smartphone penetration and bond of people with the technology have created a charm in them to switch towards the new banking. This new banking system is providing seamless experience to its customers we can evidence avoid number of customers with a special need such as contractor's, freelancers, E-Commerce platforms etc. The significant reason why the industrials are choosing the new banking is mainly because of the technology driven environment and the drawbacks of the conventional banking system. The study is limited to the number of respondents.

#### **6. MERITS OF NEO BANKS**

- 1) **Simple operating models:** Although the process to open a traditional bank account is less complicated than it once was, there is still a significant amount of paperwork and form filling needed. Some banks even require their customers to visit the near-by branch in order to open a savings account. Neo-banks make the procedure simple and eliminate the need for

clients to visit a branch to create an account because there isn't one. On a mobile device, the account can be opened in two to three steps.

- 2) **Highly secure:** Neo banks tend to have strict policies for privacy of data, security, and safety of their platforms since they don't rely on antiquated, legacy technology. Customer data security is given top importance.
- 3) **Cost:** Neo-banks have been hailed for their cost-saving advantages over conventional banks ever since their establishment. The operating and staffing costs are almost nothing because these banks don't have any physical branches [Banerjee et al. \(2022\)](#). Customers need not to pay any fees to create an account with neo banks, there are no required minimum balances, monthly fees, wire fees, or account opening costs.
- 4) **Speed:** It takes little time to open an account online. The account is promptly created and typically made use the same day. Additionally, your online account's functions that you use every day are quickly accessible: You always get a daily snapshot of your funds since transfers, deposits, and withdrawals are synchronised in real-time. Without rapid transfers, it is hard to conceive internet purchasing. The creation and availability of new items is likewise happening quickly.

## 7. DEMERITS OF NEO BANKS

- 1) **No personal assistance:** For most consumers, the lack of in-person assistance for complicated financial processes or transactions may be unpleasant. Because Neo banks don't provide the same range of services as traditional banks, some segments of the population, such as senior citizens and less tech-savvy clients, might not feel comfortable using them for specific transactions.
- 2) **Lack of regulatory clarity:** Regulatory acceptance of neo-banks is lacking. The RBI doesn't fully acknowledge neo-banks. An institution must have a large number of retail locations in order to be approved by the RBI. A fully digital bank does not receive a permission to open a storefront independently, which clarifies the main issue at hand. A conventional bank must collaborate with them.
- 3) **Lack of trust:** The difficulty in building the trust is the disadvantage of Neo banks that is most frequently addressed in the literature. Since it lacks a physical location and no licence, it is challenging to contact anyone in the event of frauds or other legal problems. Fintech start-ups are becoming increasingly popular not just in India but around the world, yet many businesses are still unable to fully earn the trust of their customers. Even when start-ups are granted government licences, consumers still view established banks as safe and are wary of them.

## 8. RESULTS AND DISCUSSIONS OF THE STUDY

The following tables and charts shows results of the total number of respondents that were contacted for the survey (180). This covers all banking clients, regardless of whether they are familiar with Neo banks or not. This will help us to understand the perception of people towards Neo banking system.

**Table 1**

<b>Table 1 Customers Visit to Bank</b>		
<b>Levels</b>	<b>No. of Customers</b>	<b>Percentage</b>
Few times a week	32	17
Few times in a month	68	37.77
Few times a year	75	41.66
Once a year	5	2.77
Total	180	100

**Source** Survey data

**Table 1** shows how often customers visit the banks in their regular life. 37.77 percent of respondents visit bank on few times a month, 17 percent visit few times a week 41.66 percent visit few times a year and 5 out of 180 people visit bank once in a year that is 2.77 percent. From the above data we can conclude that majority of customers do not enjoy visiting branches physically, but they would like to enjoy banking services at their place.

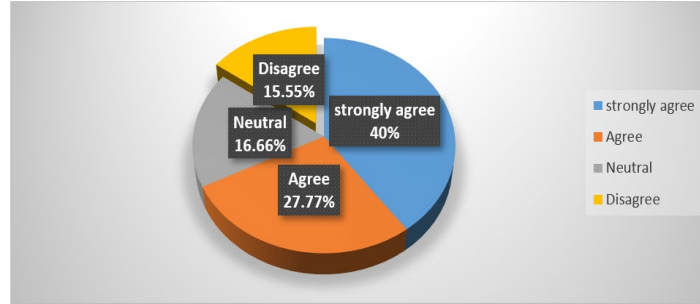
**Table 2**

<b>Table 2 Customers Awareness, Usage, and Adoption Level of Neo Banking System</b>		
<b>Levels</b>	<b>No. of Response</b>	<b>Percentage of customers</b>
Fully aware	26	14.44
Partially aware	35	19.44
Interested	43	23.88
Used	23	12.77
Not aware	39	21.66
Not Interested	14	07.77

**Source** Survey data

**Table 2** is framed to determine the level of awareness, usage, and adoption level of Neo banking system among the surveyed banking customers. 6 main levels used to determine it. 14.44 percent of banking customers among the survey are fully aware about the Neo banking system. 19.44 percent of customers are partially aware, that they know Neo banking provide banking facility as same as traditional banks without physical existence but do not know the complete details about Neo banking. 23.88 percent of customers among surveyed are known that Neo bank exist and interested in adopting Neo banking system. 12.77 percent of customers already have Neo banking accounts in different Neo banks. 21.66 percent of customers not aware about the existence of Neo banking system. Only 7.77 percent of customers are not interested in Neo banking system.

**Figure 1**

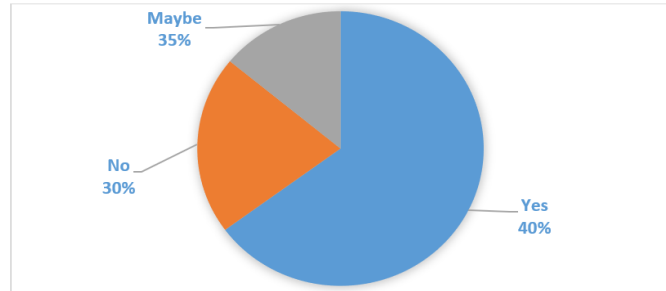


**Figure 1** Customers Agree-Ness Regarding Safety of Neo Banking System

**Source** Survey data

**Figure 1** Above graph shows that most of the customers that is 40 percent strongly agrees that Neo banking system provide safety to their funds and investments. 27.77 percent believes Neo banking is safe to use and 15.55 percentage of customers Neo banking is not safe to use they believe it has less secured compared to traditional banking system. 16.66 percent are still in neutral opinion. We can expect that most people would be happy and at ease using Neo -banks once they are fully operational in India because the majority of them feel safe and secure utilising Neo -banks.

**Figure 2**



**Figure 2** Preference of Neo Banking Over Traditional Banking

**Source** Survey data

From the above graph we can conclude that most of the respondents 40 percent are ready to accept Neo banking system over traditional banking system. 30 percent that is 54 out of 180 customers are not willing to accept Neo banking system and 35 percent of customers are still in grey area that they may accept if they get better features.

**Table 3**

Table 3 Customers Satisfied with the Services Offered by Neo Banking System		
Levels	No. of responses	Percentage
Satisfied	58	32.22
Not satisfied	22	12.22
Need to be improved	70	38.88
Not aware	30	16.66
Total	180	100

**Source** Survey results

**Table 3** depicts that 32.22 percent of respondents are satisfied with the services offered by Neo banking system and few 12.22 percent are not satisfied with current Neo banking services. 38.88 percent of respondents are suggesting that Neo banking services need to be improved and 16.66 percentage of people still not aware of Neo banking services. This shows us that Neo banks have gained the customer satisfaction up to certain level from the users. Majority users suggested that it needs to be improvised in terms of technological upgradation, security, privacy, and more user friendly. If these are fixed, it will unquestionably satisfy the demands of the current generation of banking consumers.

## **9. SUGGESTIONS**

- Majority of banking customers are aware of Neo banking system but do not know all the functions and benefits of Neo banks. Various awareness programs and campaign should be conducted to make people aware about all functions and benefits of Neo banking system.
- Still customers believe that Neo banks are less secured compared to traditional banks due to present generation cyber-attacks. Neo banks should use structure layers of security in terms of software, banking application, and in performing banking functions.
- Neo banking sector extend their service to core banking products and upgrade digitalization models according to the technological change and customer needs.
- Services provided by the Neo banks should be improvised in accordance with the customer preferences. AI should be used in enhanced manner to guide the customers in handling their accounts, investments, and other banking functions.
- Government and RBI should form a separate regulatory framework for Neo banks. Authoritative body should be created to regulate and manage the functions of Neo banks. This will enhance the scope of Neo banks in India.

## **10. CONCLUSION**

It can be concluded that to improvise and strengthen the root of the banking system in India there is a need of leap to be taken from the traditional system of banking to digitalization. Neo banking system by operating solely on digital platform provides an extensive benefit over traditional banking system. Even though Neo banks suffer from its own set of drawbacks to overcome this extended safety and security models should be installed. The customer perceptions place a major role to robust development of the Neo banking system in India. Awareness and knowledge of Neo banks should reach to the grass root level. Additionally, government should take all the necessary measures to regulate and control the functions of Neo banks to make Digital India possible.

## **CONFLICT OF INTERESTS**

None.

## ACKNOWLEDGMENTS

This study was funded by University Grants Commission (UGC) under the JRF scheme.

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