

# “A Comprehensive Study of Neo Banks Model and Consumer Perceptions in India”

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Under the Supervision of

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Thank you all for your unwavering support!

- Nilesh Jaiswal

## **DECLARATION BY THE STUDENT**

### **(Annexure D)**

I the undersigned solemnly declare that the report of the project work entitled “A Comprehensive Study of Neo Banks Model and Consumer Perceptions in India”, is based on my own work carried out under the supervision of Ms. Nehajoan Panackal.

I assert that the statements made and conclusions drawn are an outcome of the project work. I further declare that to the best of my knowledge and belief that the project is not a copy or an adaptation/improvisation of the existing project. Due mention has been made of various work which has been referred to in this study and required permissions has been taken for the same. This Project report is being submitted towards fulfillment of the course Project 1.

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## **CERTIFICATE BY FACULTY SUPERVISOR**

### **(Annexure E)**

This to certify that the report of the project submitted is the outcome of the experiential project work entitled “**A Comprehensive Study of Neo Banks Model and Consumer Perceptions in India**” carried out by Nilesh Jaiswal bearing Roll No 2222 of Batch 2020-23 under my guidance and supervision for the fulfillment of the Course- Project 1.

To the best of my knowledge, the report:

- i) Embodies the work of the candidate him/herself,
- ii) Has duly been completed,
- iii) Is up to the desired standard for the purpose of which it is submitted.

(Signature of the Faculty)

Name: Nehajoan Panackal

Designation: Professor

## Executive Summary

Since it's the era of technological improvements, all the sectors in the economy is focused on digitization including the banking sector. Thus, the idea of Neo banking is getting popular in the world. Neo banking is a notion in which there is no need for a physical bank because all services will be provided fully online.

This study presents the idea of neo banking, as well as its pros and cons. Neo banks offer a broader range of services than traditional banks. They offer comparable products and services through various business methods, with an emphasis on the consumer. The business model and structure of Neo Banks has also been examined. However, the Reserve Bank of India hasn't started distribution of banking license to Neo Banks as it is not in favour of 100% digitization of banking sectors. Thus, in India Neo banks partner with the various physical banks to provide their services. Further neo banks is seeking to bridge the gap between customers and traditional banks, as traditional bank fails to satisfy the need of their customers. Following that, this study analyzes the perceptions of consumer regarding acceptance of neo banking in India.

**Keywords:-** *Neo Banks, Fintech, Artificial Intelligence (AI), APIs, technology, Digital banking.*

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## CHAPTER 1

### INTRODUCTION

Without a doubt, technology developments have cleared the path for new sectors and are profoundly altering old ones. Financial services is one area that has been impacted by technology developments. Financial technologies, or FinTech, are transforming the financial services sector. FinTech generally means offer financial services using latest technology (D. W. Arner, J. Barberis, and R. P. Buckley, 2015).

Since 2017, the term Neo banks (virtual, digital, Internet banking) has been widely used. A Neo banks is a financial organization that offers a mix of banking services like opening bank accounts (mostly saving accounts), making merchant payments, checking account balances and statements and debit cards through digital means, particularly mobile, without having any physical branch locations (Barba, 2021). They provide access to one's bank accounts via mobile applications and a hassle free way to use banking operations as everything is available at the click of a button. Neo banks apps are often sleek and straightforward, which makes it easier to comprehend and helps in effective management of your saving and spending habits. (Watkins, 2018).

There were 256 Neo banks in the world by the end of December 2020, and some are still in the process of launching (Stagmeier and Friedental, 2020). Approximately 350 million consumers has been served by over 250 Neo banks in 2020 (The Next Generation of Banks. 2021). The growing number of Neo banks competing for market share creates strong competition in the banking sector for client acquisition and retention. Customers' acceptance of Neo banks is therefore critical for traditional banks, digital banks, and Neo banks alike (Yong Jae Shin, I. 2021).

Neo banks can run without a complete banking license while also have a license for certain banking services and undertake all the other banking activities by going into partnership with the traditional banks (Naser, 2019). For instance, in Europe, the Electronic Money Institution (EMI) neo bank may issue cards, transfer payments, and issue digital money with such a license (Electronic Money Institution, 2021).

The substantial growth potential for neo banks is driven by their low-cost model for end consumers with no or very low monthly fees on banking services such as minimum balance maintenance, deposits and withdrawals. Adoption by millennials, micro, small and medium enterprises (MSMEs), and those having sporadic incomes and earnings, embracement of innovative technologies and rising consumerism are some of the catalysts for the success for neo banks.

Neo banks are expected to replace about 40% of traditional bank branches by 2032, according to several analytics and accountancy organizations. It has been a matter of success The global neo bank market was worth USD 18.6 billion in 2018 and is expected to accelerate at a compounded annual growth rate (CAGR) of around 46.5% between 2019 and 2026, generating around USD 394.6 billion by 2026. (Raghav Aggarwal, A. S., 2020). This mobile-first technology will, however, be driven by the current COVID 19 scenario. In India, UPI transactions increased by more than 105 percent in 2020. The total increase in digital transactions was much more impressive, at about 120 percent. The number of FinTech startups has increased by a factor of two. Many multinational corporations are turning to Asia to help them reach the top of the globe in terms of fintech growth.

#### *A. Advantages of Neo Banks*

##### *a) Favorable operating models:*

The cost-leadership approach, in which Neo banks provide lower pricing and greater interest rates, is the most common operational model. One of the most enticing aspects of Neo banks is their pricing. These operational methods are achievable due to decreased expenses, as stated in the preceding section (Tosun, P. 2020). Non-interest expenditures, including as document circulation, data processing,

storage, and staff pay, are optimized by Neo banks (Glushchenko, M., Hodasevich, N., & Kaufman, N. 2019). Neo banks can gain a competitive edge by delivering competitive pricing, reduced lending rates, and greater interest rates to their clients. Traditional banks have been put under competitive pressure as a result of this business strategy (Hikida, R., & Perry, J. 2020).

b) Lower barriers of entry:

Neo banks can take advantage of banking laws in various nations. For instance, banking regulations was modified in 2014-2015 in the UK, lowering entrance hurdles (Saksonova, S., & Kuzmina-Merlino, I. 2017). Furthermore, obtaining a banking license in some nations might be difficult. For instance, in United States, a Neo banks must obtain a banking license in the state where it wishes to operate (Boot, A. W., Hoffmann, P., Laeven, L., & Ratnovski, L. 2020). Finally, Neo banks may now enter the market infew months and be fully functioning in two or three years. No doubt, other criteria like as the products and services offered, as well as whether or not the Neo banks is licensed, have a role (Ryan, B. J. 2019).

c) No legacy systems and faster technology deployment:

Because legacy systems are holding down traditional banks, new entrants like Neo banks benefit from not having these sophisticated legacy systems with intricate data formats (Valero, S., Climent, F., & Esteban, R. 2020). This enables Neo banks to respond quickly and flexibly to shifting customer tastes, allowing them to innovate more effectively than incumbents (Vives, X., 2019). Despite the fact that most of the traditional banks have already started recognizing the potential of technological advancements, upgrading to the latest technologies is difficult owing to traditional banks' reliance on old systems. Neo banks have a huge edge over traditional banks due to their rapid embrace of new technologies (Arslanian, H., & Fischer, F. 2019).

## B. Disadvantages of Neo Banks

a) Need for a large customer base:

Neo banks can gain a competitive edge by giving consumers reduced pricing, lower lending rates, and greater interest rates, as previously discussed. One of the drawbacks of this business strategy is that it needs a large client base to be viable (Gouveia, L. B., Perun, M., & Daradkeh, 2020). The lack of brand awareness and reputation is a barrier that FinTech companies must overcome. Though most of the Neo banks tried to eliminate traditional banks, they failed to do so and have instead collaborated with them to offer a wide variety of banking services (Vives, X. 2019).

b) Trust:

The most commonly mentioned drawback for Neo banks in the literature is the inability to develop trust. It becomes difficult to reach out to someone in case of frauds and anyother legal issues as it neither has a physical location nor does hold any license. Despite the fact that Fintech startups is getting popular not only in India but the whole world, Fintech companies are still not able to gain complete trust of their clients. Consumers still perceive traditional banks to be safe, and are sceptical of start-ups, even when the authorities license them (Arslanian, H., & Fischer, 2019). In the financial services business, digital platforms are seen as risky. Furthermore, only a small percentage of clients utilize Neo banks as their primary bank, owing to the difficulty of making such a selection (Tosun, P. 2020).

## C. Structure of Neo Banks

Neo Bank is a complete online bank without any physical locations that uses cutting edge infrastructure and AI to deliver a seamless banking services to its customers. Neo bank is built on APIs (Application Programming Interface) which bridge the gap between a bank's backend operations and front-end experiences supplied by the bank or third-party vendors. This enables banks to test new technologies, such as Block Chain, at a minimal cost and implement new business models. APIs also assist banks in future-proofing their systems by separating the front-end and back-end.

However, APIs are only available to those who have partnered with licensed banks which might be a limitation for Neo bank or open bank (Palepu, A. R., 2019). Yono, for instance, is a type of open bank. Neo bank does not operate independently in India; they must rely on a partner. As a result, API assists Neo Bank in acquiring users and uses third party platforms to increase its client base.

Neo bank is more concerned with the platform than with the product since neo bank is preferred only due of its platform. With various services and an open technical design that allows other developers, it has a high level of community participation. It has a customer-centric orientation and offers real-time management and fast assistance.

There are three key elements to the neo bank structure (Raghav Aggarwal, A. S., 2020):

a) Core Infrastructure:

There are numerous bank partners which allow neo banks to offer wide range of the banking services due to which this layer mostly functions on the backend. They have a payment gateway that connects them to regular banking partners.

b) B2B/ B2C Modules:

This is a neo bank's front-end service. It displays the list of services that neo banks offer to its consumers.

c) Customers:

Neo banks have a broader client base, which includes companies in the IT outsourcing industry, the travel industry, e-commerce sellers, education, marketplaces, and , non-governmental organizations.

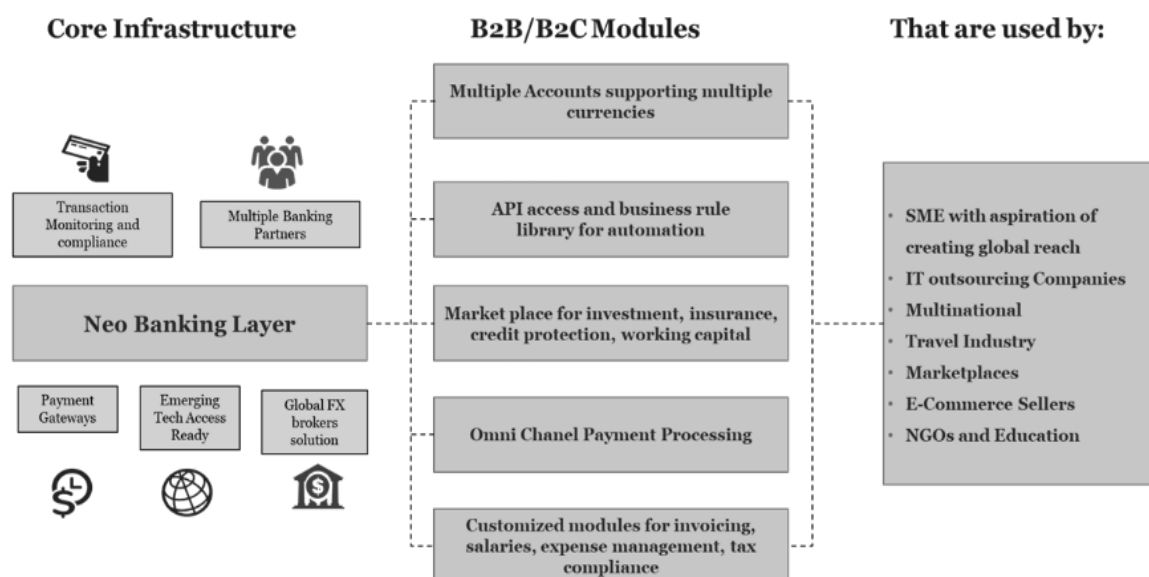


Fig 1: Structure of Neo Banks

*D. Regulatory framework for neo banks in India:*

The banking and payments industry has undergone a seismic shift as a result of digitization and the growing use of mobile technology. The new entrant in the digital payments space is neo-bank - a bank that carries all of its operations solely online and does not have any physical branch networks. Despite the rising popularity of Neo banks in India, they are not directly regulated by the banking regulator, the Reserve Bank of India (RBI) as it does not issue licenses for operating completely virtual banks. Banking services may only be provided by neo banks via a licensed partner bank.

In its Annual Report of 2014, RBI said that in virtual and branchless banks, the RBI does not identify payment banks as 'bank' (Raghav Aggarwal, A. S., 2020). So RBI does not provide these neo banks a separate virtual banking license. RBI's action also limited the entry of neo banks into India. Later in 2019, under a very restricted marketing ecosystem, RBI somehow authorized neo banks in India. As part of their business strategy and to overcome regulatory hindrances, neo banks partner with traditional banks to offer business and consumer banking services. For the end customer, financial services are offered by the neo bank, but from a regulatory perspective, monetary transactions are managed by their partner banks. The RBI may have difficulty regulating these virtual banks, which will mostly function through point-of-sale devices and business correspondents. However, in terms of digital banking, the RBI has to be more intelligent and adopt a unique regulatory strategy. It is past time for the RBI to follow suit and devise a plan for the rollout of virtual banking licenses in India.

#### *E. Neo banks for Businesses:*

Because of various defective software and complicated infra systems, one often ends up spending hours on manual efforts every month. Every element of your financial operations may be simplified, accelerated, and supercharged with a solution like neo banks. From taking payments and monitoring cash flow to reconciling transactions and offering flexible payouts, we've got you covered.

- Due to immediate payments and less manual labor, one ends up saving 10x time.
- A great customer experience is provided.
- Users have access to a unified platform that allows them to create, monitor, track, and analyze all types of money transactions from a single dashboard.
- An in-depth Financial CRM may also be used to handle and track money movement to vendors, customers, workers, and other parties.

#### *F. Rationale of the study*

##### a) Problem statement and Research Gap:

A lot of research has been conducted in the area of Neo Banks all around the world. However, not many studies have been conducted with respect to the Indian market, showing the perceptions of Indian consumer regarding Neo Banks.

This study will aim to address the gap by addressing the following research questions:

##### b) Research question:

The following questions are addressed in this research:-

- What is the business model for neo banks?
- What are the regulatory framework for Neo banks in India?
- What is the perception of consumers towards neo banks?
- Are consumers willing to accept neo banks?

##### c) Research Objectives:

- To understand the concept and model of neo banks
- To understand consumer acceptance levels towards neo banks in India.

##### d) Significance of the Study:

The Covid-19 pandemic has awakened all of us and a paradigm shift has been witnessed in various areas by making them more tech-savvy. A huge part of our population has always been dependent on traditional banking system and with artificial intelligence taking over almost everything, Neo banks are the way to go. A chunk of the society is completely unaware about neo banks while the other segment doesn't know how Neo banking works. The study is undertaken with an objective to give insight about the structure of neo banks.

e) Structure of Report:

The report is divided into five sections. Many components are included in the study to demonstrate customer perceptions of Neo Banks. The first chapter is an introduction that describes what a Neo bank is, its advantages and disadvantages, as well as the structure of Neo banks. Following that, in the second chapter, there will be a comprehensive literature study on terminology, Fin-Techs, and customer acceptability of Neo banks, notably in India. Following that, in the third chapter, we introduce our research methodology, in which we examined the variables influencing customer views of Neo banks and performed a survey on the subject. Similarly, I critically analyzed the data collected in the fourth chapter and results and further discussions including limitations of our research in the fifth chapter. Finally, I will conclude by exploring the key implications of our research in the final chapter.

## CHAPTER 2

### LITERATURE REVIEW

- This article implies that the neo banks are working on a unique approach to improve banking services via the use of artificial intelligence and information technologies. The firms that are taking the initiative to come to India including the services they provide and the manner in which they provide them has been discussed in this research (Tinesh Bhasin, 2020).
- This study looks at whether a digital bank and a neo bank are the same thing. What is artificial intelligence, and how will neo banks utilize it? Is it safe to use neo banks? As per the study, the idea of an online bank might be intimidating. As banks add new app features and valuable online services, online banking's capabilities grow, allowing digital banks and neo banks to emerge. (Monika Gudova, 2018).
- The article discussed how the banking industry is quickly evolving. They've differentiated between digital bank and neo bank using a case study of e-KYC and UIDIA. They have highlighted some of neo bank's benefits as well as its problems and flaws. Hence, the author has leaned on this article to discuss the neo banking structure and how they channel end-to-end service, as well as the advantages and disadvantages of neo banks (Raghav Aggarwal, A. S., 2020).
- An attempt has been made in this study to explain how challenger banks may establish a more lucrative route forward. Similarly, it has also been analyzed that most of the other fin tech companies have muscled their way into the checking and savings market, taking shares while neo banks expand services (Keenan, C., 2019).
- The NITI Aayog, digital payments, and India's digital journey have all been studied in this article. It explored the period of money orders, which marked a seismic change in the financial sector when computers were introduced in the mid-1980s. As per the report, with digital payments expected to reach \$1 trillion by 2025, banks will face an existential crisis if they do not adapt. The survey also discovered that after 2012, when the Department of Financial Services made the historic decision to make NEFT/RTGS free for clients, digital payments really took off (K. R. Srivats, 2019).
- The primary reasons for the Neo banks disruption, according to the analysis, may be divided into three class: a shifting regulatory backdrop, a fast growing technological environment, and shifting consumer expectations (Arslanian, H., & Fischer, F., 2019).
- Theoretical literature on the rise of digital and information technology in the Indian banking industry is analyzed in detail. This study also looks at the scope and direction of digital technology's impact in the Indian banking sector. According to the research, the start of the digital business era has been challenging the business environment and bringing forth creative and unique ways of doing business (Sardana, V., & Singhanian, S. 2018).
- This research examines why traditional banks are losing ground and how they are responding to current technological demands. The difficulties that banks confront as a result of two key causes have been discussed: high operational costs and low earnings. Furthermore, a description of the new era of competitors that have emerged as a result of technological advancement has been provided: fintech companies and neo banks. The author has also discussed their working method as well as the limitations regarding to the regulations (Altaba tena, 2020).
- The global strategy of neo banks in terms of worldwide reach and capital investment has been widely discussed in the article. The study also emphasizes on the regulations drafted by the RBI for neo banks in India, as well as the rationale behind the RBI's limits on some elements that neo banks are not permitted to deal with. He also mentioned that neo banks have a lot of potential in India since they have a specific consumer base alongwith the various digital services they are offering considerably more than the traditional banks (Palepu, A. R. 2019).
- The study examines the growth of neo banks from 2017 to 2020, as well as consumer perceptions and preferences in relation to neo banks. According to the report, in India, neo bank has a very good market



and can be a great relief for MSMEs in terms of loan advancement, payment method convenience, and creditworthiness (D'Souza, V. 2019)

- They discussed the change that neo banks have brought to the banking industry, as well as the reasons for such a tremendous transformation, such as low-cost structure, transparency, round the clock customer support, money management tools, and so on. It also discussed the way in which neo banks have made investing accessible to the general public. Customers are drawn to neo banks because they provide the freedom of switching in and out at any moment, which is tempting them to invest. Not only that, but customers also receive a greater rate of return than they would with traditional or physical banks (Hopkinson, G. G., Klarova, D., Turcan, R., & Gulieva, V., 2019).
- This study focuses on the numerous problems that neo banks confront when it comes to delivering services to their clients, particularly in terms of data protection. According to the article, the majority of consumers are concerned about the safety of their data and money at Neo Bank. As a result, it is suggested that security layering is critical in order to protect customers' privacy. (Magrath, M., 2020)
- The author looks at the economic and financial aspects of Fintech and how they contribute to the financial services industry's added value. The research provided digital transformation theory and ecosystem theory, as well as their connections to Fintech issues (Boratyńska, K., 2019).
- Using gravitational modeling technique, the author looked at the elements that characterize the components of efficiency and possible usage of novel technologies in neo-banking in 90 nations to evaluate the amount of danger of money laundering. It relates to research on countries' support for digital legislation, governments' investment in digitalization, and regulations. (Koibichuk, V., Ostrovska, N., & Kashiyeva, F., 2021)
- Using the 'Disruptive Innovation Theory,' this article investigates the disruptive potential of Neo banks as well as incumbent banks' reactions. The described issue is investigated as a case study, with the disruptive innovation framework being applied to the example of Neo banks in Switzerland, a European banking nation with a long history in financial services. The information was obtained through a content study of the annual reports of Switzerland's five largest incumbent banks, as well as an interview with a Swiss Neo bank. (Giang Geschke, J. H., & Nadine Fritschi, L., 2020)

## CHAPTER 3

### RESEARCH METHODOLOGY

#### A. Methods used to identify Consumer perceptions on Neo Banks

- Analyzing the factors that affect consumer perception of Neo Banks:
  - All of the factors why India is becoming new hub for neo banks have been thoroughly studied. These factors include how traditional banks fail to keep their clients' money safe, how they are not always present and aid consumers in times of need, how Neo banks are beneficial and necessary in the digital age, and many others. Understanding the situation of traditional banks in India and why Neo banks are superior to traditional banks came from studying these factors.
  - After the general study, it was discovered how Artificial Intelligence and API are employed in Neo banks to allow clients to access a variety of banking services and how they work.
- Preparing Questionnaire for the Consumers:
 

All of the criteria considered were insufficient to reach a conclusion. As a result, a survey was created to find out what consumers think about Neo banks. , what is their opinion of Neo banks, and do they prefer traditional banks to Neo banks? Do they believe it is safer, and do they want AI to assist them in making investment decisions? Are they happy with Neo banks having no physical presence? The questionnaire should be simple and direct so that the consumers can easily relate to all the questions.

#### B. Sample Design:

- Design of the Study: The project was divided into the following phases:
  - Phase I: Study all the factors and theories related to Consumer perceptions on Neo Banks
  - Phase II: Questionnaire
  - Phase III: Analyze Data
  - Phase IV: Prepare Report

#### C. Details of the Survey Conducted

NATUREOFRESEARCH	Quantitative
TYPEOFRESEARCH	Research design is descriptive and is based on cross-sectional design
SAMPLESIZE	153
TARGETPOPULATION	College students and their families
SAMPLING	Snowball Sampling
TYPEOFQUESTIONNAIRE	Structured
NUMBEROFQUESTIONS INVOLVED	11
TYPEOFQUESTIONS	Open as well as close ended

Table 3.1: Details of the survey conducted

- **Sample Size:** The survey was sent to 230 people which comprised college student's parents, relatives, teachers, and their family members. Out of the total population, 77 did not respond to the questionnaire. The response rate is 66.52% which is considered a good response rate for research. The questionnaire was filled by the remaining 153 people.



*D. Sampling method:*

The sampling technique used is Snowball Sampling. Snowball Sampling is a method of recruiting new volunteers for a study. This approach is especially effective when finding volunteers is difficult. It is a non-probability sampling technique.

The respondents were asked to submit their feedback and opinions through the online survey form sent to them. The data collected can be represented in the form of charts, graphs, etc. This method was chosen because participants could be selected based on availability and willingness to take part. This facilitated us to gather good responses in a short span of time.

*E. Collection of Data*

## a) Primary Data:

We have collected primary data from college students and their family members. Google forms were rolled out to collect data from these people. We have collected data from over 153 people.

- Survey method - Respondents were approached with a structured questionnaire and were asked to provide information for the structured question through self-reporting
- Type of Questionnaire- Questions asked were limited, probing, formalized, standard and structured.

The questionnaire was as follows:

- How often do you visit a Bank (Physically)?
- Rate Mobile Banking over Traditional Banking.
- Have you ever heard of Neo banks?
- Will you prefer a bank that offers customer-oriented services over traditional banks?
- Will you want to open an account in a bank with almost no fee/charges but with no physical branch as compared to the traditional banks?
- Will you be comfortable with a bank that is completely digital and has no physical branches at all?
- Will you be comfortable taking suggestions from AI, based on your investment pattern?
- To what extent do you agree neo banks are replacing traditional banks?
- Have you heard about any of the following? If yes, then are you also an account holder of the selected one?
- If given a chance and proper knowledge, will you prefer Neo banking over traditional banking?
- How safe do you think Neo Banks would be after overcoming shortfalls?

## b) Secondary Data:

- Articles from research papers
- Case studies
- Secondary data was studied in detail through papers published in prestigious journals. These journals and articles were from **YASHRAJ DOKANIA, Vartika Rawat & Ishan Shah, Anish Achuthan, Tinesh Bhasin, etc.**

## CHAPTER 4

### DATA ANALYSIS AND INTERPRETATION

The survey was performed as part of research to determine customer views of Neo Banks. A poll of young individuals (18-45 years) was conducted using Google Forms because the elderly in India are not tech-savvy and may not choose to utilize Neo banks over traditional banks. We got a good number of responses, which enabled us to evaluate the matter quickly and thoroughly.

Further, we analyzed the statistics of each question asked from the respective people

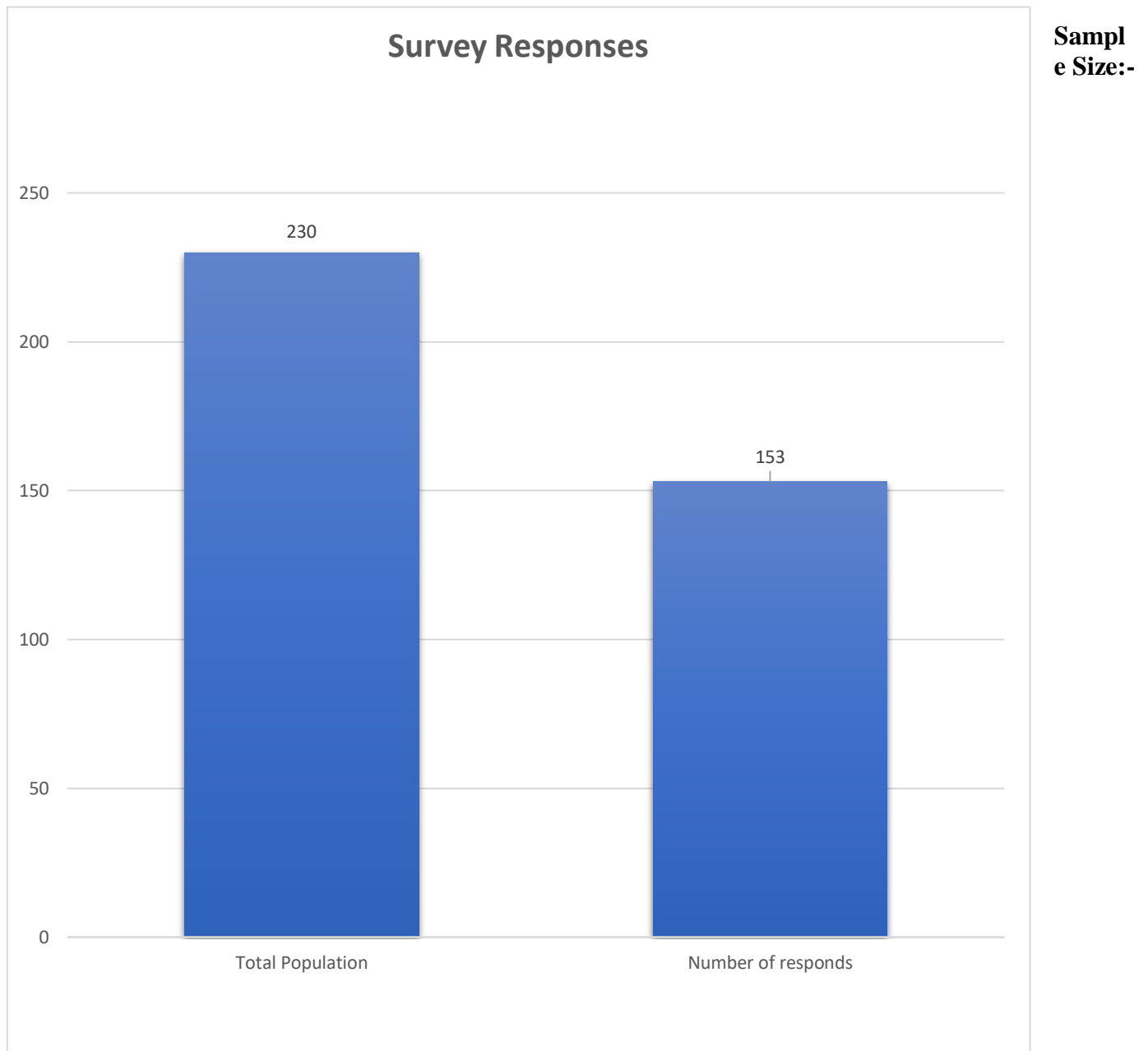


Fig 4.1: Sample Size

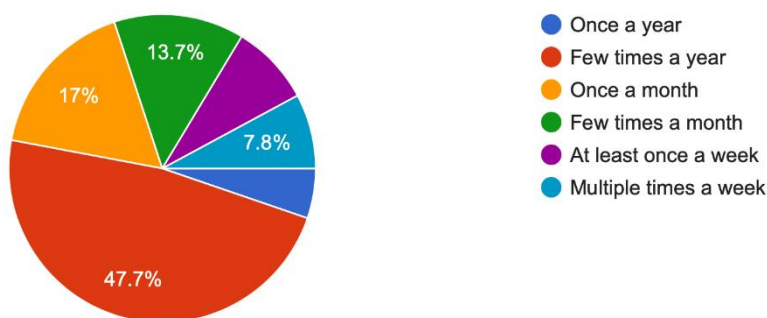
- The following chart shows the total number of people that were approached to complete the survey (230), people who actually responded (153). This includes all the people irrespective of the fact that they are familiar with the neo banks or not. This helps us understand the psychology of people regarding neo banks, will they prefer it over traditional banks or not.

#### Q1. How often do you visit a Bank (Physically)?

Category	Number of Participants	Percentage
Once a year	8	5.2%
Few times a year	73	47.7%
Once a month	26	17%
Few times a month	21	13.7%

How often do you visit a Bank (Physically)?

153 responses



At least once a week	13	8.5%
Multiple times a month	12	7.8%

Table 4.1:- Percentage of people visiting banks physically

Fig 4.2:- Graph showing how often people visit banks physically

From this graph, we can say that the majority of the people (52.9%) favored going to banks on a yearly basis, while only a few preferred going on a monthly basis (30%). Only 13 out of 153 people, or 8.5%, chose to go on a weekly basis. As a result of this data, we may conclude that the majority of respondents typically do not enjoy visiting banks, and having a bank without a physical presence must not be a major concern for most people, as most people only visit them few times a year unless something significant comes up.

## Q 2. Rate Mobile Banking over Traditional Banking.

Ratings	Number of participants	Percentage
1	0	0.0%
2	1	0.7%
3	19	12.4%
4	72	47.1%
5	61	39.9%

**Table 4.2:- Percentage of people preferring Neo banks over traditional banks**

**Fig 4.3:- Graph showing rating of mobile banking over traditional banking**

Will you prefer a bank that offers customer oriented services over traditional banks?  
153 responses

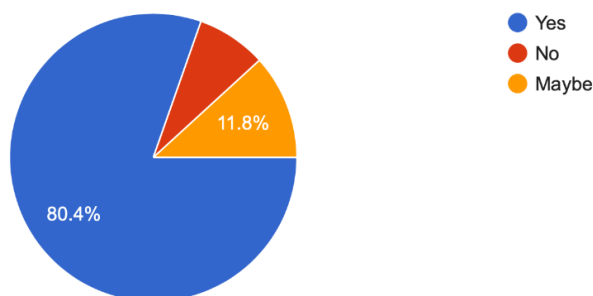
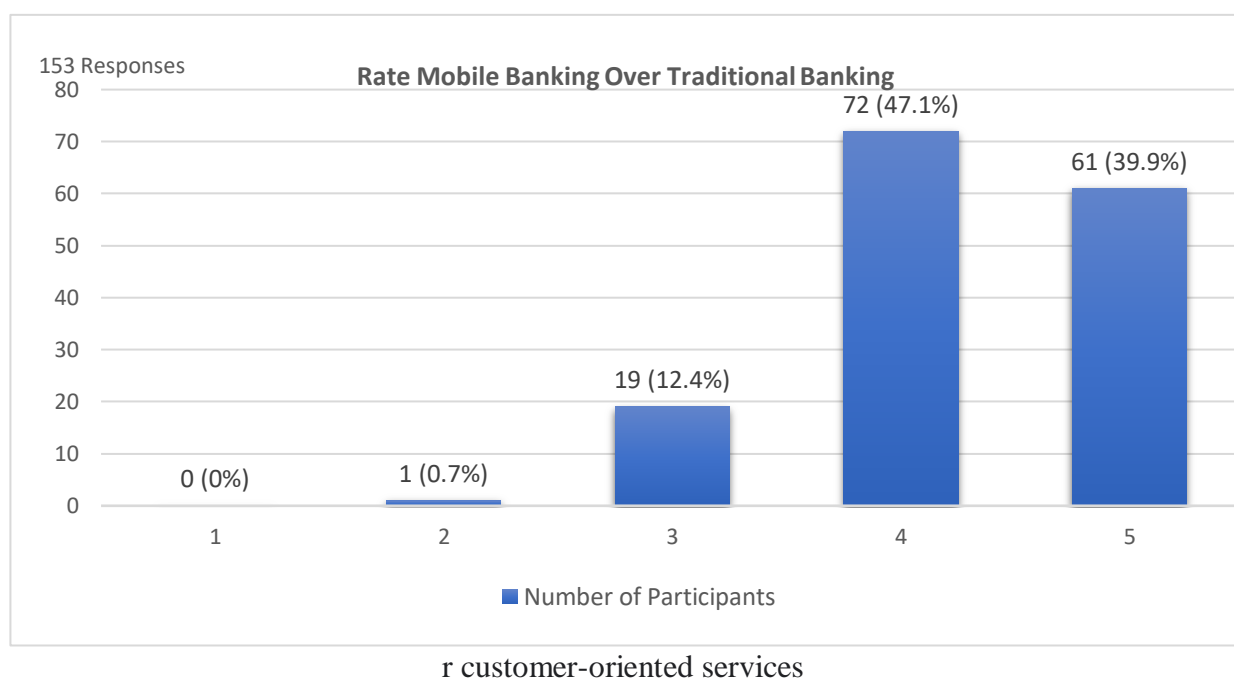


Fig 4.4: - Graph showing percentage of people who favor



Based on this graph, we can conclude that the majority of people think mobile banking is a good idea since none of them have given it a rating of 1 and the majority have given it a rating of 4 (47.1%) and 5(39.9%). This shows that individuals have been profited from mobile banking and do not want to go to the bank for little transactions over and over again. This finding indicates that individuals are highly happy to be able to do their banking transactions via mobile rather than visiting a physical location, implying that Neo Banks will be favored by many people.

### Q 3. Will you prefer a bank that offers customer-oriented services over traditional banks?

It can be clearly observed from the above responses that the majority of people favor customer-oriented services (80.4%) and only 12(7.8%) would not prefer customer-oriented services and a small percentage of people are confused about their opinion on customer-oriented services(11.8%). Since Neo banks are customer-oriented as they provide highly customized and personalized services because Neo banks are entirely digital, technology plays an important role. Neo banks are primarily concerned with the decision-making process. They're also influenced by data-driven judgements. Therefore, we are able to safely state

that if they gather data and analyze the patterns that comprehend how the consumer acts, it will surely meet the needs of today's generation of customers.

**Q4. Will you want to open an account in a bank with almost no fee/charges but with no physical branch as compared to the traditional banks?**

Will you be comfortable with a bank that is completely digital and has no physical branches at all?

153 responses

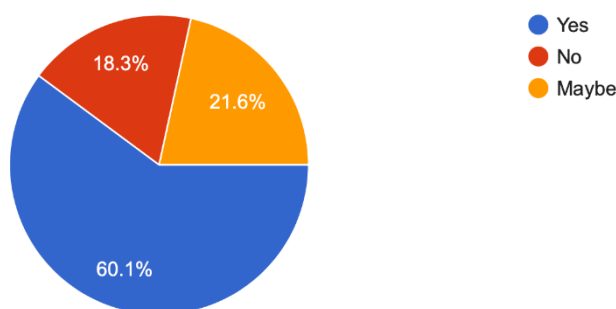


Fig 4.5:-Graph showing percentage of people that are satisfied with a low-cost bank with no physical presence

From this response, we can clearly see that most of the respondents (63.4%) are comfortable with opening a bank account in a bank with almost no fee/charges but with no physical branch, as compared to the traditional banks while only a small percentage (10.5%) would not prefer for opening account in neo banks while a section of people (26.1%) are confused as not everyone is aware of all the features of neo banks. Traditional banks are significantly more expensive than neo banks. Customers don't have to worry about hidden costs because neo banks' pricing is quite open. Traditional banks, on the other hand, may impose a variety of fees, including monthly fees for certain types of accounts. If these advantages are brought to light, individuals will surely rethink their view of neo banks and opt to create an account.

**Q 5. Will you be comfortable with a bank that is completely digital and has no physical branches at all?**

Will you want to open an account in a bank with almost no fee/charges but with no physical branch as compared to the traditional banks?

153 responses

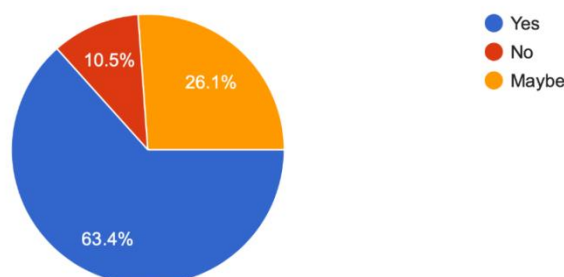


Fig 4.6:-Graph showing percentage of people that are comfortable with fully digital banking

From this graph we can see that most of the people are comfortable with having a completely digital bank with no physical presence (60.1%), only a small percentage of people would not prefer that (18.3%) while a small section of people (21.6) are confused about this. If these people are to be given knowledge about neo banks like if they want to apply for a loan at a typical bank, they must go through numerous

rigorous, time-consuming steps. In contrast, Neo banks bypass all these time-intensive and creative techniques to accelerate the whole procedure. For instance, SOFI enables users in a couple of minutes to pre-qualify loans and interest rates. Users need to encounter problems with traditional banking while making international payments. This is because customers have to request to upgrade their debit card to an international debit card to make overseas payments. However, if they have an account in a neobank, they use their card to make international transactions without requesting any upgrade. Knowing these advantages will very certainly cause them to reconsider their decision.

#### Q6.Will you be comfortable taking suggestions from AI, based on your investment pattern?

Will you be comfortable taking suggestions from AI, based on your investment pattern?

153 responses

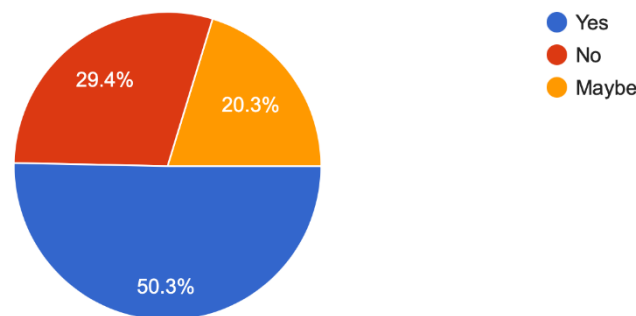


Fig 4.7:-Graph indicating percentage of people that are comfortable with taking suggestions from AI, based on their investment

Based on this response, we can clearly see that half of the respondents (50.3%) would be happy to receive recommendations from AI for investment patterns, while a small percentage of people (29.4%) would prefer not to receive recommendations from AI, and a small percentage of people are unsure about their decision (20.3%). People are hesitant to utilize AI because they are unsure how it will help them make their investments more profitable. However, if they are familiar with AI and its benefits, they are more likely to prefer obtaining ideas from AI.

#### Q7.To what extent do you agree neo banks are replacing traditional banks?

Category	Number of participants	Percentage
Strongly disagree	11	7.2%
Disagree	33	21.6%
Neutral	66	43.1%
Agree	37	24.2%
Strongly agree	6	3.9%

Table 4.3:- Percentage of people who agree that Neo banks are replacing traditional banks

To what extent do you agree neo banks are replacing traditional banks?

153 responses

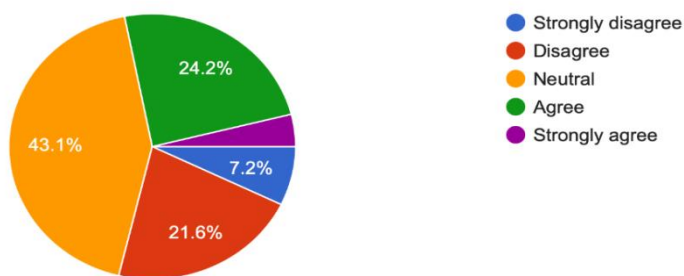


Fig 4.8:- Graph showing percentage of people who agree that Neo banks are replacing traditional banks

Most of the people (43.1%) are not really confident enough to agree that neo banks are replacing traditional banks because while Neo Banks are rapidly expanding their footprint, there are certain delays. The main stumbling blocks are obstinate consumers and a lack of regulation. The Reserve Bank of India (RBI) has not yet authorized the concept of a 100% digital bank. The Neo Banks' final destination will remain unclear as a result of this. Until then, they will have little alternative but to collaborate with established banks. While Neo Banks will attract many millennials in the consumer sector, the problem remains for urban residents, the rural market, where a large population is present. Despite the easy accessibility and superior service offered by Neo Banks, most rural people would choose physical banks to visit and seek assistance from managers of personal connections. But the situation may change over the next 2-3 years with many more banks in this area and the regulatory push.

**Q8. Have you heard about any of the following? If yes, then are you also an account holder of the selected one?**

Have you heard about any of the following? If yes, then are you also an account holder of the selected one?

153 responses

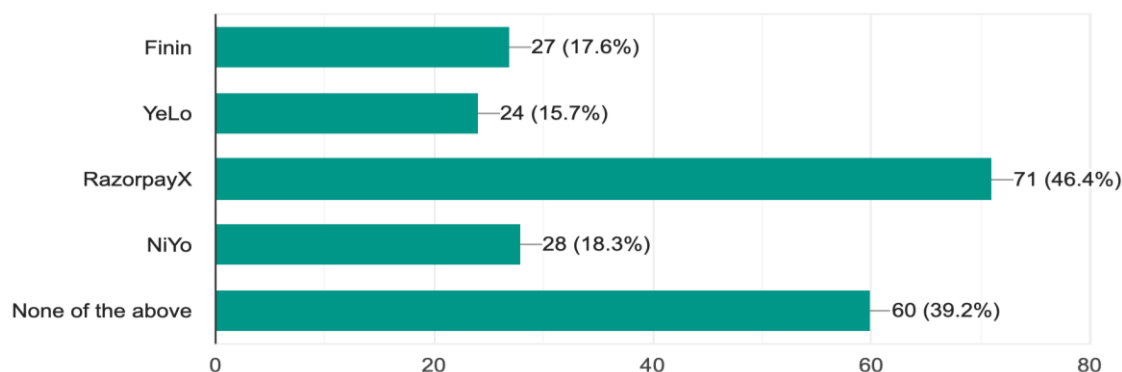


Fig 4.9:- Percentage of people who uses different Neo banks

The majority of our respondents (60.8%) already have an account with a neo bank, while the remaining (39.2%) do not. With just 10 Neo Banks now functioning in India and a reaction of the majority already having an account, we can conclude that people will trust in neo banks and will be pleased with neo banks if they achieve a 100% digital bank model in India.



### Q9. If given a chance and proper knowledge, will you prefer Neo banking over traditional banking?

How safe do you think Neo Banks would be after overcoming shortfalls?

153 responses

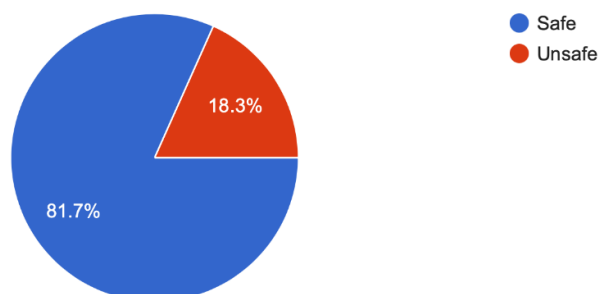


Fig 4.10:-Graph showing percentage of people who prefer Neo banking over traditional banking

From this response, we can deduce that majority of the respondents(62.1%) are of the opinion that they would prefer neo banks over a traditional bank if given proper knowledge while a few of them(15.7%) would not prefer neo banks and some of them(22.2%) are confused to choose among traditional banks and neo banks. Since India's neo banks have also been able to raise substantial funds. Indian neo banks have raised more than USD 90 million in 2019 alone. One of the primary reasons for this exponential expansion is that neo banks are introducing sophisticated features at a quicker rate, which improves their performance. According to a 2018 industry research, Neobanking applications introduce 10 new features every year. This figure is just 6 for traditional banking. When it comes to the overall number of app updates each year, the average for neo bank app updates is 27. Traditional banks, on the other hand, have fewer than ten. The Indian populace will undoubtedly become a part of the developing globe once they are aware of these features and how they will benefit them.

### Q10. How safe do you think Neo Banks would be after overcoming shortfalls?

If given a chance and proper knowledge, will you prefer Neo banking over traditional banking?

153 responses

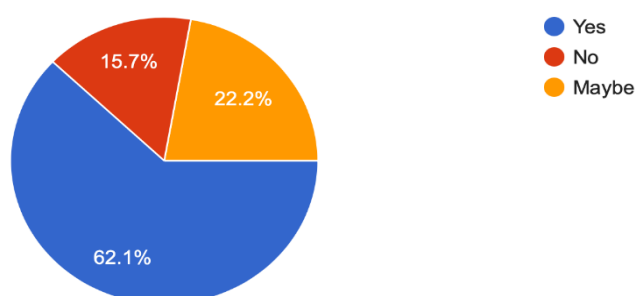


Fig 4.11:-Graph indicating percentage of people who think Neo banks are safe

From this answer we can state, most individuals (81.7%) believe that using neo banks would be secure when their failures have been cleared up, whereas just 28 of 153 people (18.3%) think neo banking will be risky even after cleaning up deficiencies. As most of them feel secure using neo-banks, once neo-banks are fully operating in India, we can assume that most of the individuals will be pleased and feel comfortable using neo-banks.

## CHAPTER 5

### RESULTS AND DISCUSSION

#### A. Findings

From the data collected above, the following are our findings:

- The majority of Indian consumers are unaware of all of the functions and benefits of Neo banks, which is why many people are perplexed when asked about Neo banks replacing traditional banks. This could also be due to the fact that there is currently no 100% digital model of Neo banks in India.
- People in India are not mostly worried about having no physical presence of neo banks since the majority of the responses can be seen as people being comfortable with having a bank with no physical presence plus people would prefer a bank having low cost and no physical presence than having a bank with physical presence but imposes a variety of fees, including monthly fees for certain types of accounts.
- If various awareness campaigns and programs are to be conducted about neo banks and people are to be made aware of various facilities and services they can access after having an account in neo bank then many of the people would love using neo banks.
- Consumers believe that having an AI guiding them to make investments will help them make a profit and that being updated on the current status of their account and not having anything specific to do will make the consumers with a busy and hectic schedule throughout the day happy and satisfied, which makes it clear that after knowing the functionality of neo banks and knowing how neo banks will meet their needs they will encourage them to use neo banks.
- With nearly double the number of sophisticated features and upgrades as traditional banks, neo banks will undoubtedly entice many people to give them a try, and will most likely make them happy and satisfied with their services because, according to the responses we gathered, these are what consumers desire, which is already noticed and provided by neo banks and soon they may be a good competitor to traditional banks.

#### B. Unique Contributions of the Study

The study on the Neo banks model and consumer perception in India has a unique contribution because relatively few studies have been conducted in the area especially when it comes to perception of Indian consumers, there's no study available. Therefore this study helps us understand the market potential of Neo bank in India, driving factors for neo banks and regulatory framework for Neo banks in India.

#### C. Limitations of the study

During the course of composing this research paper, we encountered a few roadblocks. Some of them are:

- Because the majority of people who responded had previously used a neobank such as Razorpay, Niyo, or others, there is a participation bias. This may have affected the conclusion since they are less skeptical of neobanks than those who have never used one.
- Because of the epidemic, this survey is being conducted entirely online, limiting the scope of the study. The study was constrained to a small sample size due to the COVID-19 Pandemic.
- The sample size for the study that we considered was 153 participants, which is insufficient to draw any precise conclusions or make statistical measures. Individual characteristics like age, which might influence a person's decision to use a neo bank, were also neglected in our research.
- The participants have dealt with a variety of neobanks, thus their experiences may differ. This makes it more difficult to generalize the findings. It would have been better if all of the participants had used a predetermined neobank or collection of neobanks, followed by the planned questionnaire.
- These are some of the limitations discovered and observed during the course of this research project. The study, however, contains all of the important aspects, information by which one can conclude a basic perception of consumers regarding Neo banks in India.

*D. Scope for further research*

- The study can include the impact of individual characteristics on the customer acceptance of neo banks.
- The consequences of the pandemic on Neo banks' global expansion. Will it help them to gain more traction in countries where the banking system is negatively affected?

## CHAPTER 6

### CONCLUSION

As the world is becoming more tech-savvy and is approaching more and more digitalization, the idea of banking without banks and banks without branches is gaining popularity. And, from the past couple of years, neo banks are the way to do that. Neo banks, being physically inexistent, running on the web, partnering with banks; provide most of the banking services with negligible service costs. As the consumers are gaining more and more knowledge about computers and technology, they are being able to access banking services from their very location. Also, this has gained hype after the unwanted COVID-19. Ever since the lockdown was imposed and people were not able to access their banks for any issues, they started inclining towards the e-services. And, these e-services were brought by the neo banks.

But, still these organizations have gained the accurate amount of popularity as they should have gained. There are two reasons behind this. People of Generations X and Y are definitely not very good with it. The reason behind it is that the people of Generation X and Y have gone through lot of adversities and so, they try being precautious about their money. And, taking their money online does not feel the safest option to them. Moreover, this is one of the reasons that they try not to change with time. And, those who have changed with time have taken good grip over technology are not just using it, but also improving it.

However, those who are educated enough like people living in the developed nations are trying to get accustomed to this new tech. People in The USA, The UK, Australia, etc. find this new tech as a means of not going to different locations to get their work done. And, this has been a reason for more growth of neo banking in western countries as compared to Asian.

Our views about the technology are that it is going to grow no matter what a specific segment thinks about it. This is because technology is going to improve and people are going to get more educated. As the technology like RPA, API and block chains are going to improve; it would become more difficult for the cybercrimes to happen. Also, as the time passes, people of Generation Z would come into play who would be more educated about the tech.

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## **APPENDIX A**

See the google form used for the survey here:

Form for knowing the perceptions of consumer regarding neo banks:

<https://forms.gle/rCZNCtzJg5Dthw2HA>

## **APPENDIX B**

See the detailed Google Sheet of the correspondents here:

Sheet for knowing the perceptions of consumer regarding neo banks

<https://docs.google.com/spreadsheets/d/195PbFcsESGHVoh4Cz1gVfGfj4BOOag7C8gZt3du8VLw/edit?usp=sharing>