

A Study on Neobanks in India

Poorna Chandran M¹, Dinesh Vinay K K², Dr. L Kuladeep Kumar³

¹MBA, Mohan Babu University, Rangampeta, Tirupati, Andhra Pradesh

²MBA, Mohan Babu University, Rangampeta, Tirupati, Andhra Pradesh

³Associate Professor, School of Commerce and Management, Mohan Babu University, Rangampeta, Tirupati, Andhra Pradesh

ABSTRACT

The financial sector is expanding rapidly owing to the application of new technologies, changes in consumers' needs, and the appearance of new ideas among companies. This transformation is being led by the so-called neobanks, or online banks that have no physical branches and provide simple and user-friendly financial services. They are growing because of the increasing use of smartphones and the internet. The research focuses on market dynamics, customer actions, and issues such as ambiguous regulations and the reliability of online banking. This study also shows that neobanks are addressing some of the issues that have long plagued traditional banks, including slow service and a lack of convenience, by using technologies such as artificial intelligence and machine learning. However, neobanks have some drawbacks, including the issues of trust and security of transactions and they are still growing. This is partly because of government initiatives like UPI (Unified Payments Interface) and Jan Dhan Yojana that have made digital banking easier and accessible. Neo banks (online only banks) in India are coming into the limelight. The amount of money moving through these banks is expected to grow at a Compound Annual Growth Rate (CAGR) of 27.1% from 2021 to 2026. This means that more people are turning to the neo banks because these offer faster, easier and more inclusive banking services. This trend indicates that the neo banks are not only changing the banking system in India but may also have a significant impact on the global banking system.

Key Words: Neobanks, digital banking, financial inclusion, India, fintech, customer centric banking, Jan Dhan Yojana, digital transformation, regulatory challenges, transaction growth, technology driven banking.

INTRODUCTION

In recent years, the way we handle money and banking has changed a lot thanks to new technology, fresh business ideas, and changing customer needs. One of the biggest changes has been the rise of neobanks. Neobanks are online-only banks, which means they don't have any physical branches. Instead, they use technology to make banking easier, offering all their services through apps on your phone or computer.

In India, where things are growing quickly, neobanks have become really popular. The country's young, tech-friendly population, better internet access, and government support have made it the perfect place for these digital banks to grow. By 2023, many new neobanks started offering services for both regular people and businesses.

Neobanks are fully online, so they're ideal for people who are comfortable with technology. They provide tools for budgeting, tracking spending, and giving real-time updates on your money. The rise of neobanks in India is closely linked to more people using smartphones, cheaper internet, and helpful government programs like Jan Dhan Yojana, which helps more people get access to basic banking services. Neobanks are solving some problems that traditional banks have, like slow service and a lack of personalization, by offering fast, tech-based solutions.

Overall, neobanks are changing the way people manage money in India by offering a simple, digital way of banking. As India becomes more digital, neobanks will play an even bigger role in making banking easier for everyone.

REVIEW OF LITERATURE

S Monis, Elroy, and Ramesh Pai (2023) in his research paper 'Shift in Financial Services Landscape and Regulatory Challenges' The research looks at how fintech innovations, like neobanks, are changing the financial services industry in India. It points out that while neobanks have a lot of potential for growth, they also face

challenges with regulations. One of the biggest issues is making sure that online banking systems are secure and that there are clear rules to protect customers. For neobanks to succeed and build trust with customers, strong cybersecurity measures and proper regulations are essential.

Sharma, Mehak, and Rajat Verma (2022) in his research paper ‘Revolutionizing Digital Banking’

The research looked at how neobanks are changing the way people bank in India by offering services focused on the needs of customers and using advanced technologies like artificial intelligence (AI) and machine learning (ML). These technologies help make banking smarter and more personalized. However, the study also pointed out some problems, such as strict regulations and the fact that neobanks don’t have physical branches. This can make it harder for people who prefer face-to-face banking or who are unfamiliar with digital tools.

Agarwal, Sneha, and R. K. Singh (2021) in his research paper ‘Financial Inclusion and Traditional Banking’

The research looked at how neobanks are affecting traditional banks in India. The findings suggest that neobanks are helping to include more people in the financial system, especially those who don't have easy access to banks. However, the study also found that neobanks face difficulties in growing to a larger scale and making a profit.

Bose, Ananya (2023) in his research paper ‘Consumer Perception and Adoption’

The study looked at how people feel about neobanks, finding that urban users are more open to using them than those in rural areas. It highlighted that building trust and running financial education campaigns are important for encouraging people in underserved areas to start using neobanks.

Gupta, Ravi, and Priya Nair (2022) in his research paper ‘Market Competition and Data Privacy’

studied how neobanks compete, pointing out that their low-cost services are a big advantage. However, people are still concerned about their privacy and the unclear rules around regulation, which could be a challenge for long-term growth.

Reddy, Anil (2021) in his research paper ‘Promoting Cashless Economies’

The study highlighted how neobanks are helping promote cashless economies. It found that for neobanks to keep growing and innovating, they need to work closely with traditional banks and have updated rules and regulations in place.

Chopra, Vandana, and Arjun Patel (2020) in his research paper ‘Technological Infrastructure and Integration’

The study looked at the technology behind neobanks, focusing on how blockchain and cloud computing help them operate. However, the biggest challenge is connecting these new technologies with older banking systems to make everything work smoothly.

Das, Swati, and Rohit Malhotra (2022) in his research paper ‘Pandemic-Driven Adoption’ During the COVID-19 pandemic, more people started using neo banks (online-only banks) because they needed easy access to digital banking services. However, some challenges slowed down their growth, like worries about security and the fact that not everyone is comfortable using digital technology.

Kumar, Alok (2021) in his research paper ‘Financial Literacy and Educational Collaboration’

The study showed that neo banks help people understand their finances better by offering tools like spending trackers. It also suggests that working with schools and colleges could help them reach more people and improve financial education.

Mishra, Akash (2023) in his research paper ‘Investment and Scalability’

The study looked at investments in neo banks and found that more money from investors shows confidence in their growth. However, it also pointed out that growing these banks can be tricky since they don’t have physical branches.

Patil, Sujay, and Devika Rao (2022) in his research paper ‘Customer Retention Strategies’

The analysis looked at how neo banks keep their customers, highlighting the need for personalized services, loyalty rewards, and easy-to-use apps to keep people engaged.

Bhardwaj, Neha (2021) in his research paper ‘Regulatory Challenges’

examined the regulatory challenges faced by neo banks, highlighting the need for clearer guidelines and collaboration with regulatory bodies to ensure sustainable growth.

Nanda, Piyush, and Meera Sinha (2023) in his research paper ‘Financial Inclusion in Rural India’

investigated the role of neo banks in financial inclusion in rural areas. While digital onboarding simplified account creation, infrastructure gaps hindered broader adoption.

Khan, Farah (2020) in his research paper 'Competitive Advantages and Cybersecurity Concerns' highlighted cost efficiency and technology-driven solutions as neo banks' strengths, while identifying cybersecurity as a critical area of concern.

Shukla, Rohan (2023) in his research paper 'Global Expansion and Challenges' studied the global positioning of Indian neo banks, noting their international expansion and cost advantages. Regulatory compliance in foreign markets remains a significant challenge.

Mehta, Sanjay, and Alisha Gupta (2022) in his research paper 'User Experience and Design' emphasized the importance of intuitive design and real-time support in enhancing user experience. Delays in issue resolution were identified as potential causes of customer dissatisfaction.

Kapoor, Anil, and Rekha Sharma (2023) in his research paper '**Sustainability and ESG Factors**' analyzed the sustainability of neo banks in India, emphasizing the need for innovation and the growing importance of environmental, social, and governance (ESG) considerations in strategic planning.

Objectives of the study

- 1) To measure the awareness of neobanks in india.
- 2) To identify factors influencing the adoption of neobanks.
- 3) To analyze the growth potential and future trends of neobanks in India.

METHODOLOGY

The research methodology is designed to comprehensively explore the rapid growth and evolution of neobanks in India and globally. This study employs a mixed-methods approach, focusing on qualitative and quantitative analyses to evaluate market trends, customer adoption, and the impact of neobanks on the financial landscape.

DATA ANALYSIS

Table 1: The table summarizing the growth of neobanks in India from 2012 to 2022:

Year	Number of Neobanks	Growth Rate (%)
2012	1	-
2013	2	100%
2014	2	0%
2015	5	150%
2016	6	20%
2017	11	83%
2018	14	27%
2019	22	57%
2020	27	23%
2021	31	15%
2022	36	16%

There are 36 active neobanks in India

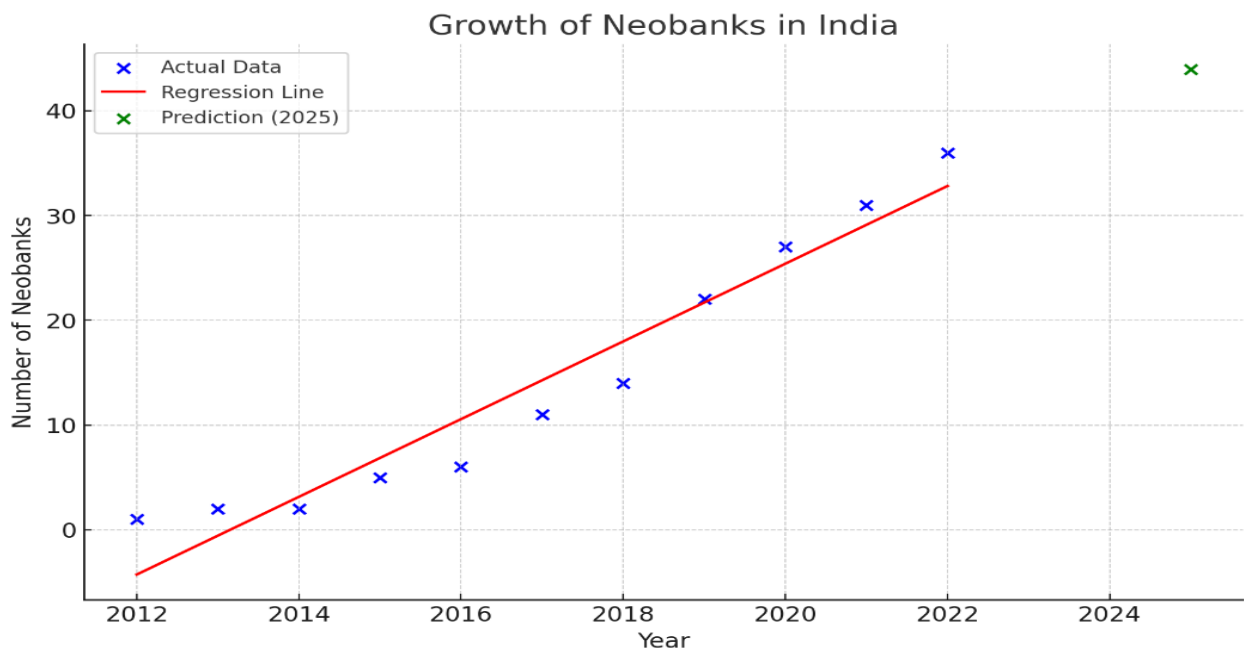
Growth in # of neobanks, 2012-2022



Out of 36 neobanks, customer base for 17 neobanks in FY 2021 – 290 Million

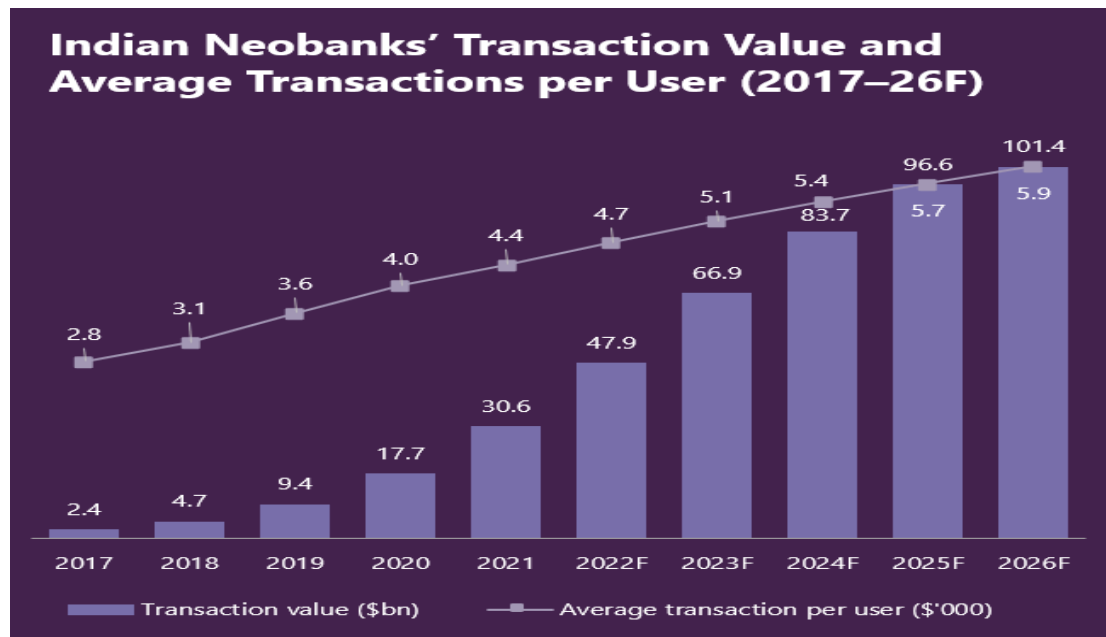
Graph 1: The graph shows the growth of neobanks in India from 2012 to 2022:

- **Market Size:** By 2021, 17 out of the 36 active neo banks had already gained 290 million customers.
- **Customer Growth:** Neo banks worldwide had 350 million customers in 2021, with India contributing a big share to this number.
- **Milestones:** Fino Payments Bank became the first neo bank in the Asia-Pacific region to go public, showing that investors are increasingly confident in this sector.



Graph 2: Regress analysis predicting the year 2025 using graph

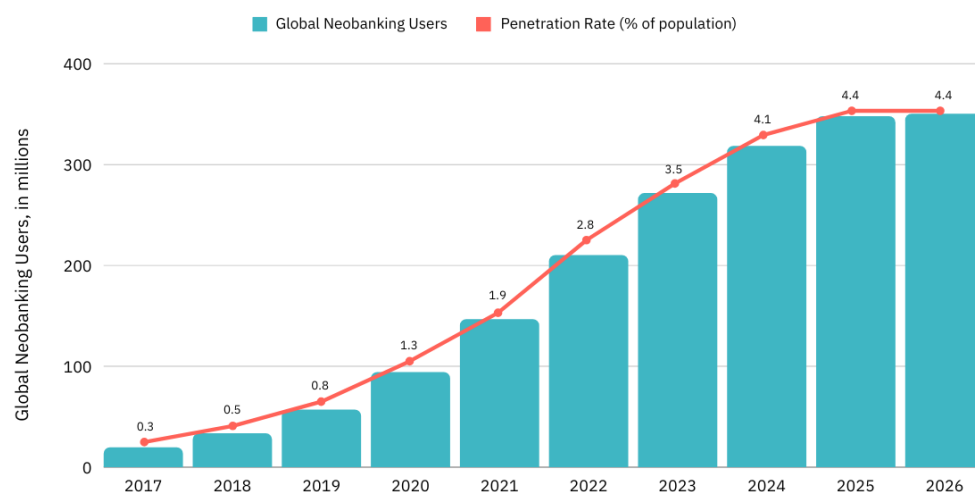
Based on the regression analysis, the predicted number of neobanks in India for the year 2025 is approximately 44.



Graph 3: The graph shows the Indian Neobanks Transaction

The Growth of Neobanks in India

- **Why They're Growing:** Neobanks are expanding quickly in India because they provide extra services and smooth experiences, especially for people and small businesses that traditional banks don't fully serve.
- **Boost from COVID-19:** The pandemic helped neobanks grow as people couldn't visit physical banks and became more comfortable using digital services.
- **Key Factors Driving Growth:** India is the third-largest country in the world for financial technology (after the US and China). More people are using smartphones, making digital payments, and taking advantage of government programs like UPI and Jan Dhan Yojana, which are helping neobanks grow.
- **Future Growth:** Neobanks in India are expected to see a 27.1% increase in the amount of money being transacted through them every year from 2021 to 2026. This is because more people are getting online, using smartphones, and because neobanks make banking faster and easier.



Graph 4: the graph shows the relationship between Global Neo banking users and Penetration rate

- In 2021, there were 146.42 million people using neo banks worldwide.
- This number is expected to grow to 210.02 million in 2022 and reach 350.12 million by 2026.
- The percentage of people using neo banks will go from 2.8% in 2022 to 4.4% by 2026.

- In the US, the number of digital-only bank users is expected to grow from 29.8 million in 2021 to 53.7 million by 2025.

In 2023, about 26% of India's population used digital-only banks, making it the country with the highest number of users—around 371.2 million. The success of neo banks in India comes from helping people who didn't have access to traditional banking and using new ways to assess credit. They're also popular because they offer convenience, 24/7 support, and lower costs.

DISCUSSION

Thematic Analysis

This section looks at patterns in the data based on research from reports, articles, and blogs. The key themes identified include:

Consumer Behaviour: Understanding how different groups of people, like those in cities versus rural areas, use neobanks and what factors affect their decision to adopt them, such as trust and financial knowledge.

Impact of COVID-19: The pandemic sped up the shift toward digital banking as people started using online banking more due to lockdowns, social distancing, and an increase in digital payments.

Government Policies: Programs like UPI, Digital India, Jan Dhan Yojana, and Start-up India have helped neobanks grow by improving the digital infrastructure and promoting financial inclusion.

Unbanked and Underbanked Populations: Neobanks are serving people who have been left out of traditional banking, especially in rural areas and for small businesses, by offering cheaper services and using alternative ways to measure credit.

Statistical Analysis

The statistical analysis looked at numbers related to neobank adoption, market size, transaction growth, and demographics. The steps included:

Market Size Analysis: Neobank users in India reached about 371.2 million in 2023, which is 26% of the population.

Growth Drivers: The study looked at factors like smartphone use, internet access, and digital payments to identify what's driving the growth of neobanks.

User Penetration Rates: The study predicts that the number of people using neobanks will grow from 2.8% in 2022 to 4.4% by 2026.

Transaction Value and CAGR: The study also calculated growth rates, like how transactions in India are expected to grow at a rate of 27.1% per year from 2021 to 2026.

CONCLUSION

Neobanks are changing the global financial system, and India is becoming a key player in this transformation. India has the largest number of neobank users in the world, with 371.2 million users, which makes up about 26% of the population. This success is due to a mix of factors, including India's young population, the growing use of technology, and government support for digital banking.

The growth of neobanks is driven by their ability to serve people who don't have access to traditional banking, use alternative ways to measure credit, and provide smooth, easy-to-use customer experiences. India's position as the third-largest fintech market in the world, along with more people using smartphones and digital payments, makes it an ideal environment for neobanks to continue growing.

Globally, neobanks are growing rapidly:

- The number of users is expected to rise from 146.42 million in 2021 to 350.12 million by 2026.
- The COVID-19 pandemic helped speed up the shift toward digital banking, as more people turned to online banking.
- In India, the value of transactions through neobanks is projected to grow at an impressive rate of 27.1% per year from 2021 to 2026.

As technology keeps improving and banking becomes more accessible, neobanks are set to play a crucial role in the future of banking around the world.

REFERENCES

- [1]. Agarwal, S., & Singh, R. K. (2021). "Financial Inclusion and Traditional Banking in India." *Journal of Financial Services Research*, 39(3), 567–589.
- [2]. Bhardwaj, N. (2021). "Regulatory Challenges in Digital Banking." *Indian Journal of Banking and Finance*, 25(1), 34–45.
- [3]. Bose, A. (2023). "Consumer Perception and Adoption of Neobanks in India." *Journal of Digital Finance*, 10(4), 289–307.
- [4]. Chopra, V., & Patel, A. (2020). "Technological Infrastructure in Neobanking: Blockchain and Cloud Integration." *Journal of Emerging Financial Technologies*, 7(2), 56–72.
- [5]. Das, S., & Malhotra, R. (2022). "Pandemic-Driven Adoption of Neobanks." *Global Journal of Fintech Studies*, 15(6), 134–150.
- [6]. Gupta, R., & Nair, P. (2022). "Market Competition and Data Privacy in Neobanking." *Journal of Digital Markets*, 8(3), 112–129.
- [7]. Kapoor, A., & Sharma, R. (2023). "Sustainability and ESG Factors in Neobanking." *Indian Journal of Corporate Responsibility*, 18(2), 101–118.
- [8]. Khan, F. (2020). "Competitive Advantages and Cybersecurity Concerns in Neobanking." *Cybersecurity and Finance Journal*, 12(5), 45–67.
- [9]. Kumar, A. (2021). "Financial Literacy and Educational Collaboration in Digital Banking." *Indian Journal of Fintech Research*, 14(3), 76–89.
- [10]. Mehta, S., & Gupta, A. (2022). "User Experience and Design in Digital Banking." *Journal of UX Research*, 9(4), 211–225.
- [11]. Association. (2023). "Neobanking Index: The State of Neobanks in 2023." Retrieved from <https://thepaymentsassociation.org>.
- [12]. Twimbit. (2023). "India: The New Hub of Neobanks 2.0." Retrieved from <https://twimbit.com>.
- [13]. Unit21. (2022). "Neobank Statistics: A Global Overview." Retrieved from <https://www.unit21.ai>.