

Neo-banking in India: a milestone to growth and development in financial service sector

¹Dr. Nagaraja B. ²Anjan Kumar A. L.

¹Asst. Professor, ²Lecturer,
¹Dept. of Commerce and Management, ²Dept. of Commerce and management,
¹Acharya Banagalore B-School, Bengaluru.
²Bhandarkars' Arts and Science College, Kundapura

Abstract

Today we all pride to the technology for a radical changes in all business scope especially in financial sector that managing transactions very smoothly and delivering the services in finger tips. Present banking services are considerably not a new but same as the traditional banking customer were offered at past. But the amazing technologies flourish the financial sector to be a magnificent sector in the customer relationship. The services called softech, fintech, internet-banking or neo-banking. Neo-banking is the strategy adopted by the financial sector to provide such a traditional services via technology. "Conducting transactions via smart devices and computing systems was a pure myth at some point in time and today it has become a reality."¹ In the world "with over half (57 per cent) of consumers now preferring internet banking, up from 49 per cent pre-Covid-19 and 55 per cent preferring banking mobile apps compared with 47 per cent previously, the stakes have risen further as the Covid-19 context continues to move consumers towards digital baking"² The digital India forecasted in July 2017 the internet banking users would be increased from 45 million to 150 million in 2020. This present study focused on neo-banking system and its growth and development in Indian financial sector. A fact-finding methodology is used in the study which is depends on policy documents, research papers, international reports, and available literature in the related area.

Key: Neo-Banking, India, Growth and Development, Financial service sector

I. Introduction

"Fintech or financial technology means offering financial services over the internet."³ "Technology has continuously played on important role in the working of banking institutions and the services provided by them. Internet has emerged as an important medium for delivery of banking products and services."⁴ All most the people leaned to digital era. The technology is most common requirements today as food and shelter. Undoubtedly, technology developments have cleared the path for new entrants and are profoundly altering old one. In fact all the area of business today that has been impacted by technology developments. The Neo-banks offered comprehensive services as traditional banks.

Today, it's highly impossible to find the person who has no bank account and mobile phone without internet. "Banks are also under increasing pressure to meet customers' needs with regards to digitalization."⁵ Neo-banks main feature is providing services with absence of physical mode of operation. The technology luxuries the process of operation minutes to second. Very advanced technology optimise the operations with effective operational cost that minimises the services cost and effects on the business growth. The comport zone operational system again enhance the utility of the services.

II. Scenario of Fintech in the world and India

Neo bank means the bank which operates only on the digital platform.⁶ Neo-banks aren't a new concept, having arrived in the 2010s after the Great Recession, and they are gaining popularity in the U.S. Data suggest there are about 23 million neo-bank customers. That number is expected to more than double, to 50 million, by 2025.⁷ Unlike traditional banks, most neo-banks aren't chartered, but it's common for neo-banks to partner with chartered banks.⁸ The global neo-banking market size was valued at USD 47.39 billion in 2021 and is expected to grow at a compound annual growth rate (CAGR) of 53.4% from 2022 to 2030.⁹ The rising demand for convenience among customers in the banking sector is expected to drive market growth. Neo-banks offer banking solutions without the need for physical branches or offices. They help users validate their service offerings in real-time through online channels and mobile sites. In addition, the growing adoption of smartphones and the internet across the world for online banking is expected to further accelerate the demand for neo-bank platforms.

According to Visa, a multinational financial service company, there are more than one billion mobile money wallets worldwide. Many financial service providers are collaborating with mobile money wallet providers to offer affordable money transfer services. Neo-banking is gaining popularity among retail customers and Small- and Medium-sized Enterprises (SMEs). Free debit cards, digitized account opening, personal finance advisory, instant payments, e-bill generation, invoice management, account integration,

and GST-compliant invoicing are some of the key features propelling retail customers and SMEs to adopt neo-banks over traditional banks and use the digital services offered by them efficiently.

III. Neo-banks In India vs Challenger Banks

Many people across the globe confuse neobanks with challenger banks. They may be operating on more or less the same principles but share a fine line of difference. Here's a table to help you distinguish between the two.

| | Challenger banks | Neo-banks |
|--|--|--|
| Regulations | Regulated by banks | Not regulated by banks. They follow RBI and govt. regulations |
| Business Model | All-inclusive financial institutions with elements of both traditional and neo-banks | Similar to tech start-ups yet more technologically driven. |
| Ideal for | All-sized businesses | Usually serves small-to-medium sized businesses |
| Fee | Comparatively higher charges. However, lower than traditional banks | Cheapest services compared to challenger and traditional banks |
| Legal remedies | Defined legal remedies in case of a negative situation | No defined legal remedies in case of a negative situation |
| Longevity and relationship building | Better visibility and acceptance in the Indian market | Comparatively lower visibility and acceptance in the Indian market |

IV. Top 10 Neo Banks in India

With the fintech ecosystem gearing towards ease of usage and customer satisfaction, neo banking in India has seen significant profits over the last few years. And if experts are to be believed, the future of Neobanks in India is pretty bright. Here's a list of Neobanks in India.

| Sl. No | Name of the Neobank | Founder | Founding Year |
|---------------|----------------------------|---------------------------------|----------------------|
| 1 | Jupiter | Jitendra Gupta | 2019 |
| 2 | FI Money | Sumit Gwalani, Sujith Narayanan | 2019 |
| 3 | Niyo | Vinay Bagri | 2016 |
| 4 | OcareNeo | Dr. Neeraj Sheth | 2015 |
| 5 | ZikZuk | Raj N | 2020 |
| 6 | Open Money | Mabel Chacko, Ajeesh Achuthan | 2017 |
| 7 | Finin | Sudheer Maram, Suman Gandham | 2019 |
| 8 | Kotak811 | Uday Kotak | 2016 |
| 9 | Instapay | Shailendra Agarwal | 2013 |
| 10 | Razorpay | Harsheel Mathur | 2013 |

V. ADVANTAGES OF NEO BANKS¹⁰

1. It offers low cost services without demanding any minimum deposit.
2. Return on savings and fixed deposit is high than the traditional banks.
3. Neo banks do not have any physical existence, it is completely technological driven.
4. It is efficient as it provide almost real time services without much documentation.
5. It also encourages investment facility and also provides investment education.
6. It serves the services to the customer around the clock.
7. The primary business of neo bank is to provide banking services and apart for this they also provide near real time accounting and reconciliation services for bookkeeping, balance sheets, profit and loss statement and certain taxation services like invoicing, GST compliance, payment of tax etc.
8. Neo bank ensures complete transparency of services, charges, and complete details of every transaction and notifications.
9. Neo bank ensures high security feature for account and debit card with blocking feature within application or over call.
10. Neo bank allows customer to manage their other accounts which are either partner or associated banks with them.

VI. CHALLENGES FOR NEO BANKS

1. Neo bank is in banking service tough not completely as they are not providing all the services that a traditional bank is providing.
2. The biggest challenge in front of neo bank is there separate licensing. We have seen in regulation of neo bank that neo bank is not recognized as virtual bank in India as of now which stands as a hurdle in their development because they have to depend on

other partner bank for licensing. Thus, it results in lack of satisfaction among the promoter of neo bank because they have to agree on all the terms and condition of the partner bank for the sake licensing.

3. Another challenge for neo bank is lack of technological knowledge among the customers. Thus, they are unable to make best use of it.

4. Due to branchless concept of neo bank, it creates a trust issue among people as they think their money is not safe. For Example: Recently Google has removed Paytm from the Play Store because of violation of gambling policy, thus the Paytm customers are in a great dilemma that Whether their money in Paytm wallet is safe? After that Paytm replied that the customer money in wallet is completely safe. Though in such cases customer lose their trust in neo banks.

5. Another major challenge for neo bank is no regulatory framework which et rules and regulations for the neo banks in order completely authorized them for providing services. The neo bank offers considerable services to the customer though they don't fully satisfy all the needs.

VII. Scope of neo-banking in India

Neo-banks, sometimes called challenger banks, are Fintech Companies, often start-ups that offer non-traditional banking services digitally. Typically, these companies provide checking and savings accounts through a mobile app or website and do not have branches. It is common to find neo-banks that include tools to help customers budget and reach savings goals. Neo-bank customers often enjoy lower fees and higher interest rates than their traditional counterparts.¹¹

It is easy to confuse neo-banks and online banks. Though neo-banks are, in fact, online, many traditional banks also offer online banking through websites and apps. If the traditional bank has minimum account balances or fees, however, the same rules and fees typically apply to its online banking products. Unlike traditional online banks, neo-banks aren't chartered unless they have partnered with a chartered bank.¹²

VIII. Structure and Operational Mechanism of Neo-Bank In India

Reserve Bank of India has not permitted 100% digital bank in India. Therefore, Neo banks in India don't have a banking license of their own. To overcome this limitation they have a partnership with banks and non-banking financial institutions. Neo banks are outsourced their banking responsibilities to licensed banks. Neo banks are operating through Application Programming Interface (API). API is included different services offered by the Neo banks and integrated them into their partner's software also.

IX. Growth of neo-banking in India

In 2020, the penetration rate of smartphones in India reached 54 per cent and was estimated to reach 96 per cent in 2040, more than doubled from the financial year 2016, when only 22 per cent of the mobile subscribers were using a smartphone. In 2020, the volume of smartphone shipments across India was around 149.7 million.

With the smartphone penetration in India set to grow multi fold in the coming years, there is a vast scope of growth for Neo banks in India. Neo banks target three main classes of customers: — The high-end consumers are always on the lookout for a better seamless experience that aligns across all their digital touch points, be it an Apple, Amazon or Facebook. — The under banked customers who don't have access to quality banking and have unstable, irregular incomes yet can benefit from a digital financial platform.— Customers with special needs, such as independent contractors, freelancers, Uber drivers, etc., may need very short-term loans to smoothen their cash flow. In India, MSME's account for about 95% of the country's industrial units but have not been covered by conventional banks. Neo-banks give this MSMEs access to financial services through a formal banking and credit system.

The prime factor driving the growth of neo-banks in India is that traditional banks are yet unable to offer the range of services they offer safely and effectively on a digital platform. Going ahead, neo-banks are only going to get bigger and better with improvements in technology. Already neo-banks have real-time data and lego-blocks like architecture, making it very easy to roll out new features and products. What is interesting is that it is the customers that are driving this wave of change in the business of banking as they become more demanding about the experience and the value, they expect from their banking experience.

As the neo-bank sector is still in its infancy, it faces teething troubles and growing pains due to operational constraints and regulatory barriers. Some of these include:

Lack of regulatory clarity: Neo-banks lack regulatory acceptance. The RBI does not recognize neo-banks entirely. To be accepted by the RBI, an institution is expected to have widespread retail outlets. To elaborate on the key challenge here, a wholly digital bank does not get a permit to set up a shop independently. They need to partner with a traditional bank.

Quality of management: Data privacy is a significant concern for any institution with technology at its helm. Given that neo-banks rely heavily on customer data with the possibility of cross-sell products staying afloat, failures and frauds are causes of concern. There are chances of it being affected by the passage of the Personal Data Protection Bill, India's GDPR equivalent.

X. Conclusion

Neo banks are said to be the future of banking not only in India but across the globe. The Neo banking sector is expected to grow at a CAGR of 53.4% in between the period 2022-2030 which is unprecedented growth for any sector. This assures that neo banks are here to stay but they do not have the framework and the structure to replace the traditional banking modal. Fintech platforms have technology and security as their greatest advantage. This is also reflected in the banking costs for the ultimate consumers in the form of reduced banking costs. Neo banking is app-based and removes all the glitches often experienced by customers, especially in the digital banking of public sector banks. The Indian start-up sector has generated many unicorns in the fintech space that have become global names over time.

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