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Comparative Study on Traditional Banking and Neo Banking

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ABSTRACT: A research method is simply the frame work or plan for a study that is used as guide in collecting and analysing the data. It is a blue print used for completing a study. The present study being empirical in nature undertaken to examine the meaning of neo banks and how they can help in growth and advancement of countries. This study is useful and tells how the neo banks work and how they help in improving the performance of banks as a whole. In analytical research, on the other hand the research also uses facts already available, and analyses these as a critical evaluation of the materials. Thus, the study is an analytical study. So, the study undertaken based on adequate size of sampled banks discussed in sampling design.

KEYWORDS- Growth and advancement, improved performance of banks, neo banks analytics

I. INTRODUCTION

Neo banking refers to a new type of banking that operates entirely online, without physical branches. Neo banks offer customers a range of financial services, including digital payments, mobile banking, savings accounts, loans, and investment options, all through their mobile apps or websites. The rise of neo banks has disrupted the traditional banking sector, as they offer greater convenience, accessibility, and cost-effectiveness for customers.

As this sector continues to grow, there is a need for research to better understand the dynamics of neo banking and its impact on the broader financial industry. Researchers may investigate a range of topics, such as customer behaviour and preferences, the regulatory environment for neo banks, the business models and strategies of neo banks, and the potential risks and benefits of using neo banks for individuals and society.

Research in neo banking can provide valuable insights for policymakers, industry leaders, and consumers alike. For example, policymakers may use research findings to design regulations that promote innovation and competition while ensuring consumer protection. Industry leaders may use research to develop more effective strategies for attracting and retaining customers.

II. STATEMENT OF PROBLEM

The emergence of neo banking, also known as digital banking or fintech banking, has revolutionized the traditional banking landscape by offering innovative and convenient financial services to customers.

Neo banks heavily rely on digital platforms and mobile applications for customer interactions and transactions. This raises concerns regarding data privacy, cybersecurity, and the overall trustworthiness of these platforms. As neo banks operate across different jurisdictions, they must comply with a wide range of complex financial regulations and standards. Customer Education and Adoption: While neo banks offer a range of innovative financial products and services, many potential customers may not be aware of these offerings or understand how they can benefit from them.

Customer Support and Personalization: With limited or no physical branches, neo banks heavily rely on digital channels for customer support. Financial Inclusion: Although neo banking has the potential to enhance financial inclusion by offering services to the unbanked and underbanked populations, there are challenges in reaching and serving these marginalized communities.

Objectives

Objectives of the research are as follows:

- Understand the performance of neo-banks in various countries based on their growth and regulation.
- To compare the customer engagement between traditional banking and neo banking.
- To determine the rise of the users of neo banking.

Collection of Data



This report is based on a combination of primary research, however primary data collection was given more importance since it is overbearing factor in attitude studies. One of the most important users of research methodology is that it helps in identifying the problem, collecting, analyzing the required information data and providing an alternative solution to the problem.

The methodology adopted includes:

- Questionnaire
- Random Sample survey
- Discussion with the Concerned

Sampling Design

The present study is based on Primary data from various publications, neo banks, various books, periodicals and magazines and different website related to banking industries etc. have used for better reliability. Opinions expressed in Business standard, Newspapers, accounting literature, Annual review and different publications are also used in this study. The study mainly focused on neo-banks of the western countries. Also, the current neo banks in India Is effective or not.

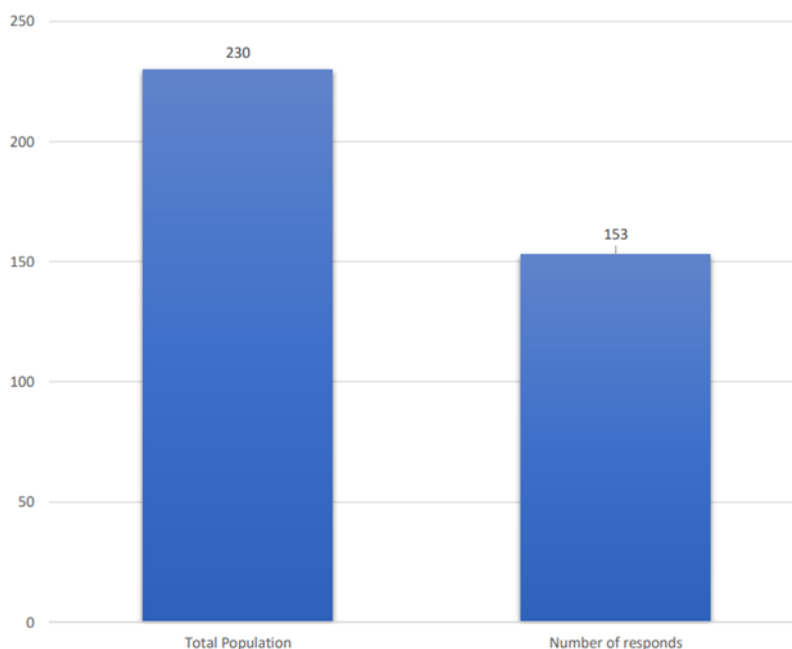
Sample Size

In this study responses from 153 individuals residing in different parts of Noida are collected. The whole research and interpretation done is based on their responses only.

Data Analysis and Interpretation

In order to learn what customers think of Neo Banks, a survey was conducted. Because the elderly in India are not tech savvy and might not prefer Neo banks over traditional banks, a survey of young people (18-45 years old) was conducted using Google Forms. We received a good number of responses, which allowed us to quickly and thoroughly assess the situation. Additionally, we examined the statistics for each question posed by the relevant people.

Survey Responses



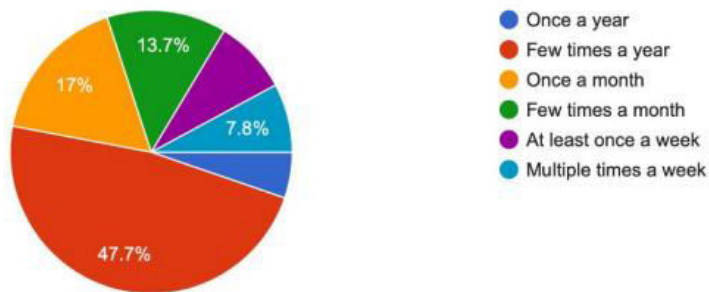
The following graph displays the total number of people who were asked to participate in the survey (230), as well as the number of people who did so (153). This applies to everyone, regardless of whether they are familiar with neo



banks or not. This helps us comprehend how people think about neo banks and whether they will prefer them to traditional banks or not.

Q1 How frequently do you physically visit banks?

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%



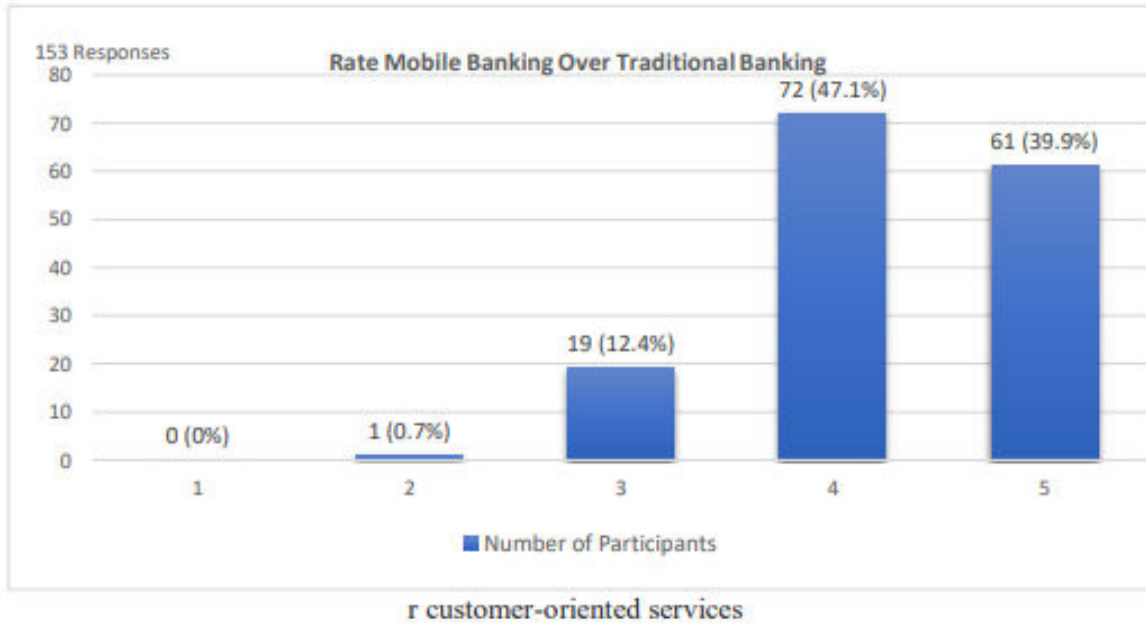
At least once a week	13	8.5%
Multiple times a month	12	7.8%

Table 4.1:- Percentage of people visiting banks physically

From this graph, we can infer that most respondents (52.9%) preferred going to banks annually, while only a small percentage (30%) preferred doing so monthly. 8.5% of the 153 participants, or 13 out of them, decided to go every week. This information leads us to the conclusion that most respondents typically dislike going to banks. Since most people only visit banks occasionally unless something important occurs, having a bank without a physical location must not be a major concern for most people.

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%



Based on this graph, we can infer that most people think mobile banking is a good idea because no one has given it a rating of 1, and most have given it a 4 or a 5 (47.1% and 39.9%, respectively). This demonstrates that users of mobile banking have benefited from it and no longer desire to frequently make small transactions at the bank. This finding suggests that people will prefer Neo Banks because they are extremely happy to be able to conduct their banking transactions through their mobile devices as opposed to going to a physical location.

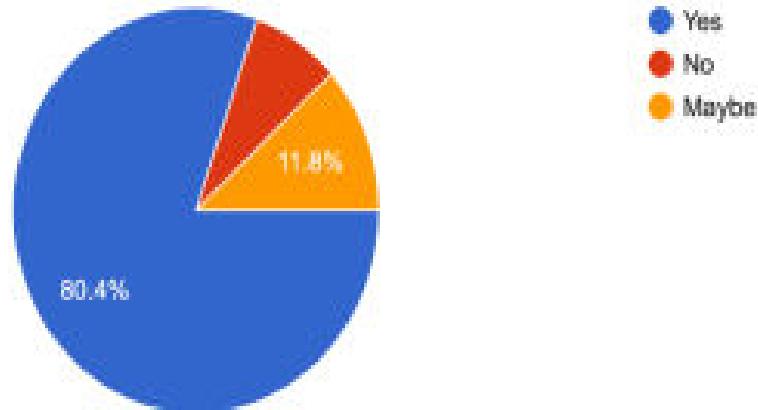
Q3. Will you prefer a bank that offers customer-oriented services over traditional banks?

The responses provided above make it abundantly clear that the majority of people (80.4%) prefer customer-oriented services, while only 12 people (or 7.8%) would prefer them to be avoided and only a small number of people (11.8%) are unsure of their views on the topic. Technology has a significant impact on neo banks because they are customer-focused and offer highly individualized and personalized services due to their complete digital nature. Neo banks are mostly interested in the selection procedure. Data-driven judgments also have an impact on them. So, we can confidently assert that if they collect data and examine the patterns that reveal how the consumer behaves, it will undoubtedly satisfy the demands of the current generation of customers.



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

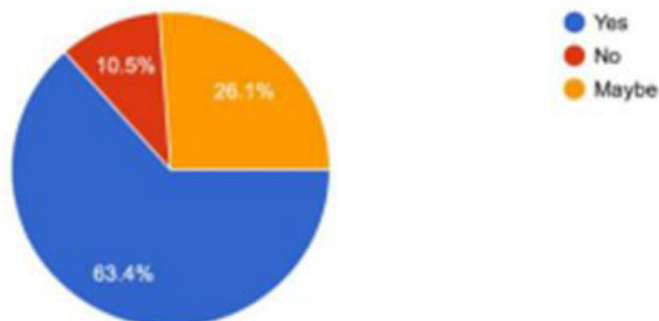
153 responses



Q4. Do 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 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



In contrast to traditional banks, the majority of respondents (63.4%) are comfortable opening accounts in neo banks, which have virtually no fees or charges but no physical branches. Only a small portion (10.5%) would prefer not to do so, and a portion of respondents (26.1%) are confused because not everyone is aware of all the features of neo banks. Neo banks are considerably more expensive than traditional banks. Because neo banks' pricing is fairly transparent, customers don't have to worry about unanticipated expenses. On the other hand, traditional banks may charge a range

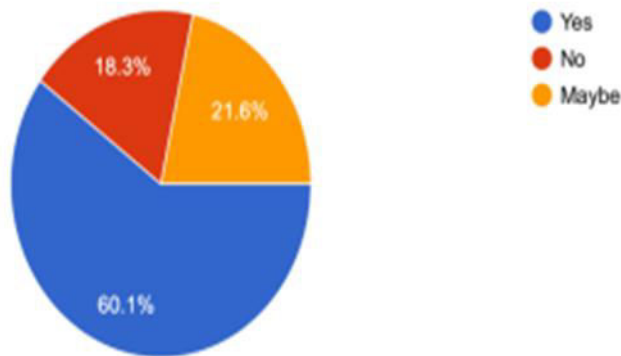


of fees, including monthly fees for specific types of accounts. People will undoubtedly reconsider their opinion of neo banks and decide to open an account if these benefits are made clear.

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

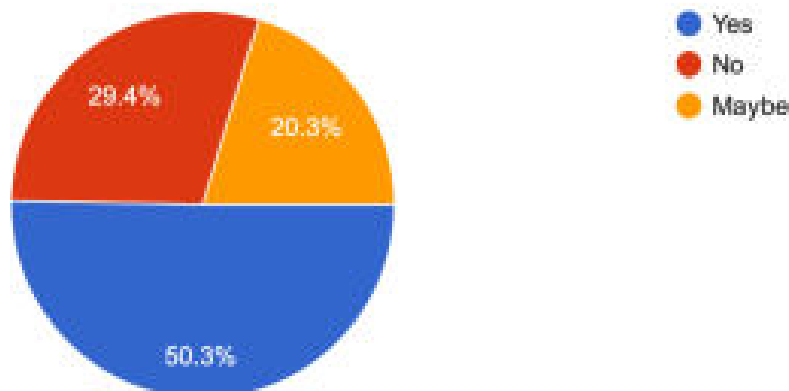
Will you be comfortable with a bank that is completely digital and has no physical branches at all?

153 responses



According to this graph, the majority of people are okay with having a bank that is entirely online and has no physical locations (60.1%), while only a small minority would prefer something different (18.3%) and a tiny minority (21.6%) are unsure about it. These people must go through a number of demanding, time-consuming steps in order to receive information about neo banks in the same way that they would if they wanted to apply for a loan at a typical bank. Neo banks, in contrast, omit all these laborious and inventive methods to hasten the process overall. For instance, SOFI gives users the ability to pre-qualify for loans and interest rates in a matter of minutes. Making international payments requires users to run into issues with traditional banking. Customers must upgrade their debit card to an international debit card in order to make payments abroad. But if they have a neo bank account, they can use their card to make international purchases without asking for an upgrade. They will most likely rethink their choice after learning about these benefits.

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



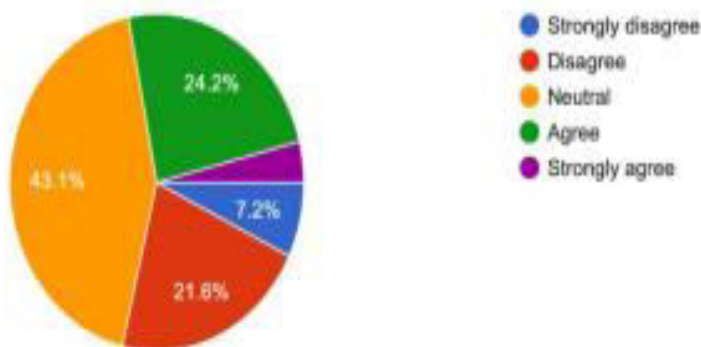
Based on this response, it is evident that half of the respondents (50.3%) would be content to receive AI-generated recommendations for investment strategies, while a small proportion of respondents (29.4%) would prefer not to receive such recommendations and a small proportion (20.3%) are undecided. People are hesitant to use AI because they are unsure of how it will enable them to increase the profitability of their investments. They are more likely to prefer getting ideas from AI, though, if they are aware of it and its advantages.



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%

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



Although neo banks are rapidly expanding their footprint, there are still some delays, so the majority of people (43.1%) aren't really sure that neo banks are replacing traditional banks. Constantly demanding customers and a lack of regulation are the main roadblocks. A 100% digital bank has not yet received approval from the Reserve Bank of India (RBI). This will make it difficult to determine where the Neo Banks will end up. They won't have many options besides working with well-established banks up until that point. Even though Neo Banks will draw in a lot of millennials in the consumer sector, the issue of the rural market, which is home to a sizable population, still exists for city dwellers. Even though Neo Banks are easily accessible and provide superior service, most rural residents still prefer to visit physical banks and ask for help from managers they know personally. However, with many more banks in this region and the regulatory push, the situation might change over the next two to three years.

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



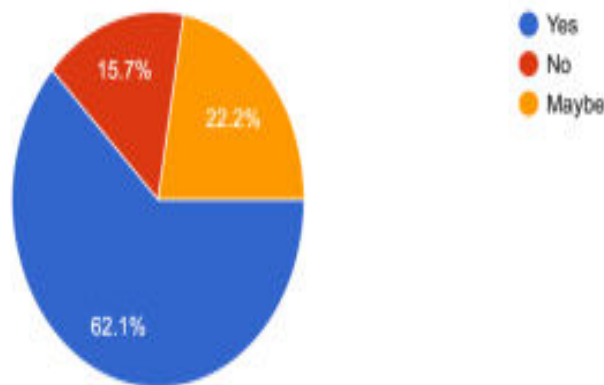


While the remaining respondents (39.2%) do not, the majority of them (60.8%) already have an account with a neo bank. With only 10 Neo Banks currently operating in India and a response of the majority already having an account, we can draw the conclusion that if neo banks are successful in creating a 100% digital bank model in India, people will trust neo banks and be happy with them.

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

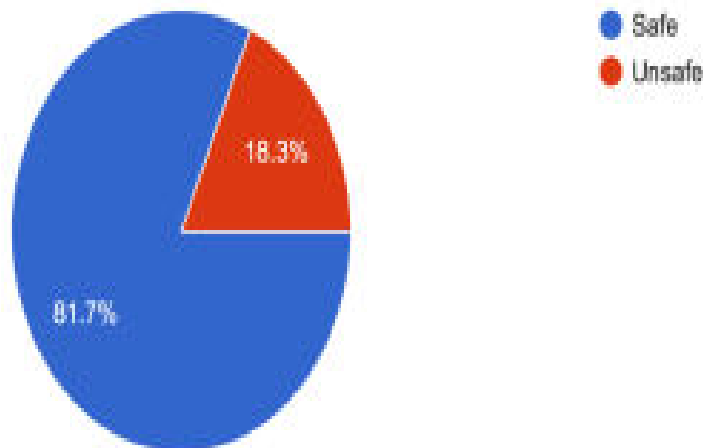
If given a chance and proper knowledge, will you prefer Neo banking over traditional banking?

153 responses



We can infer from this response that the majority of respondents—62.1%—are of the opinion that, given the choice between traditional banks and neo banks, they would choose neo banks instead. Only a small percentage—15.7%—would not agree with this conclusion. Another small percentage—22.2%—are unsure. As a result of their success in raising significant funds, India's neo banks. A total of USD 90 million has been raised by Indian neo banks in 2019 alone. Neo banks are introducing sophisticated features at a faster rate, which improves their performance, and this is one of the main causes of this exponential growth. Neo banking applications roll out 10 new features annually, according to an industry study from 2018. For conventional banking, this number is just 6. The average annual number of updates for neo bank apps is 27, according to the overall app update count. On the other hand, there are fewer than ten traditional banks. Once the people of India are aware of these features and how they will help them, they will unquestionably join the developing world.

Q10. How safe do you think Neo Banks would be after overcoming their failures?





From this response, we can conclude that the majority of people (81.7%) think that using neo banks would be secure once their failures have been resolved, while only 28 out of 153 people (18.3%) think neo banking will still be risky even after addressing deficiencies. We can assume that the majority of people will be happy and at ease using neo-banks once they are fully operational in India because the majority of them feel secure doing so.

Findings and Limitations

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

- Many people are baffled when asked about Neo banks replacing traditional banks because the majority of Indian consumers are unaware of all the features and advantages of these financial institutions. There isn't currently a 100% digital Neo bank model in India, which could also be the cause of this.
- Since the majority of responses indicate that people are comfortable with having a bank without a physical presence and that people would prefer a bank with low costs and no physical presence over a bank with a physical presence but imposes a variety of fees, including monthly fees for certain types of accounts, people in India are not primarily concerned about neo banks not having a physical presence.
- Many people would enjoy using neo banks if various awareness campaigns and programs were to be conducted about neo banks and people were to be made aware of the various facilities and services they can access after having an account in a neo bank.
- It is clear that after learning about the functionality of neo banks and understanding how neo banks will meet their needs, they will encourage customers to use neo banks. Customers 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.
- Neo banks will undoubtedly entice many people to give them a try with almost twice as many advanced features and upgrades as traditional banks, and they will most likely make them happy and satisfied with their services because, based on 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.

Limitations of the study

There were a few difficulties that we ran into while writing this research paper. To name a few of them:

- There is a participation bias because the majority of respondents had previously used a neo bank like Razorpay, Niyoy, or another. Due to their lower level of skepticism toward neo banks than those who have never used one, this may have had an impact on the findings.
- Due to the epidemic, this survey is only available online, which restricts the study's potential application. The COVID-19 Pandemic limited the study to a small sample size.
- 153 participants made up the sample size for the study that we looked at, which is too small to draw any firm conclusions or perform statistical analyses. Our research also ignored individual traits like age, which might affect a person's choice to use a neo bank.
- It is possible that the participants' experiences will vary because they have dealt with various neo banks. As a result, generalizing the findings is more challenging. It would have been better if all participants had used a predetermined neo bank or collection of neo banks before completing the intended questionnaire.

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