



e-ISSN: 2319-8753 | p-ISSN: 2347-6710

IJIRSET

International Journal of Innovative Research in
SCIENCE | ENGINEERING | TECHNOLOGY



INTERNATIONAL JOURNAL OF INNOVATIVE RESEARCH

IN SCIENCE | ENGINEERING | TECHNOLOGY

Volume 11, Issue 6, June 2022

ISSN INTERNATIONAL
STANDARD
SERIAL
NUMBER
INDIA

Impact Factor: 8.118



9940 572 462



6381 907 438



ijirset@gmail.com



www.ijirset.com

An Empirical Study on Neobanks – The New Age Banks

Mr Gunduluru Mahammad Wahab, Ms E. Vaishnavi, Prof Prithwiraj Das

MBA Student, Aims IBS Business School, Bengaluru, India

MBA Student, Aims IBS Business School, Bengaluru, India

Principal & Professor (Marketing), Aims IBS Business School, Bengaluru, India

ABSTRACT: Neobank is a digital bank that operates without any physical locations. It has a virtual and online mode instead of a physical mode at a specific site. Neo Bank is a fintech that specialises in digital services such as payments, debit cards, money transfers, and lending. Neobanks provide as a bridge between established banks and new customers. Because Neobanks do not have physical locations in localities, customers can open accounts from the comfort of their own homes using their smart phones and computer system. The account can be available in a matter of minutes, thanks to their technology-driven KYC process. Neobanks have built a name for themselves in the fintech world. A large number of new firms have entered the industry. Their distinguishing feature is that they simplify financial services to meet the demands of today's digital generation. In comparison to regular banks, neo-banks offer a limited variety of products and services. Following the impact of demonetization and the pandemic spread of the digital banking, individuals have begun to gravitate toward digital payments and net banking, and digital payments and several digital-related platforms have experienced rapid growth. The goal of this paper is to have a better knowledge of neo banks.

KEYWORDS: Neo Bank, Neo Banking, Online Banking, Digitalization, Fintech.

I. INTRODUCTION

Online based banking, internet based banking, virtual banking, digital banking, and complete internet banking are all terms used to describe a neo bank. It's a form of direct bank that will only function online and not through traditional branch networks. They have few documentation requirements, are cost-effective, and charge a reasonable fee. Unlike traditional banks, they have low to no transaction fees and are borderless. Neo-banks are digital banks with no physical branches that offer full financial services to their customers. Apps that can be accessed using a smartphone are how they communicate with their customers. Neobanking is a fintech company that specialises in digital and mobile-first services such as payments. Debit cards, money transfers, lending, and other services are available. Neobanks fill the gap between the services that are already available. Traditional banks' products and services, as well as the changing expectations of new-age clients. Since 2016, the term "neo bank" has been used to describe fintech-based financial companies. Traditional banks are being challenged. It was once known as Challenger banks, but it is currently known as Neo banks. The term "financial service providers" refers to a wide range of financial service providers who primarily target tech-savvy customers. Neobanking is a term used to describe a group of people who work in the financial services industry. Anish Achuthan, the CEO of neobank Open, created payment firm Zwitch before launching the neobank.start-up for contactless mobile payments Neartivity Wireless and Cashnxt Technologies, as well as mobile value-added services, iFuturz Wireless, a new service startup, has been added. Neo-banks are using artificial intelligence and technology to undermine the traditional banking system. Customers will be able to choose from a variety of personalised services thanks to artificial intelligence (AI). Traditional, on the other hand, Banks use an omni-channel strategy, which means they have both physical (branch locations and ATMs) and digital (online) channels. Having a digital banking presence allows you to offer a wide range of products and services. From customer acquisition to typical banking services like remittances and money transactions, we've got you covered. Utility bills and personal finances are two topics that come up frequently. Customers will be able to choose from a variety of services provided by neobanks. spanning the retail and small-to-medium-sized-enterprise (SME) sectors Typically, neo-banks use a design approach. thinking approach to a specific banking region and changing their products and services in such a way that makes banking easier and more convenient for customers. As a novel type of bank formed in 2017, the term 'neo-bank' gained popularity around the world. In terms of consumer involvement, connectivity, and reach, it's a threat to traditional banks, and it's growing fast. Especially crucial is the user experience. Neobanks are often known as 'challenger banks' because of this. The marketplace The growing use of the internet and cellphones across the globe is

fueling the growth of neo-banks. Changing consumer habits, which are primarily reliant on digital media, have reshaped the industry. In the previous 4-5 years, the banking sector has seen a lot of changes. Are beginning to confront stiff competition from new and emerging technologies. neo-banks that provide mobile financial services that are rapid, convenient, and cross-border through an application.

II. LITERATURE REVIEW

Innovation technology and cyber frauds risks of neobanks: gravity model analysis

AUTHOR: Vitaliia Koibichuk Natalia Ostrovska, Flora Kashiyeva, Aleksy Kwilinski.

Neobanks provide unique services and make use of cutting-edge technology, making them appealing to specific customer groups. Neobanks' services are enabled by banks, either through BaaS platforms or direct-to-bank connection. Some neobanks, on the other hand, are pursuing bank charters, and a new OCC payments charter 1.0 may have an impact on how neobanks provide services in the future. Meanwhile, other banks have chosen to treat neobanks as clients, monetizing their infrastructures and forging close bonds with fintechs. These connections may allow banks to gain a head start on future banking services and collect additional data from third parties. Other banks are vying for customers with neobanks by launching their own neobanks or offering services and features that appeal to comparable demographics. The majority of banks, on the other hand, have yet to take meaningful action. Real-time payments, such as the upcoming FedNowSM Service and The Clearing House's Real-Time Payments, may help banks to compete with neobanks by providing features like P2P payments, early payroll access, and push alerts, which are common among neobank offers. Neobanks, on the other hand, are employing AI, platform integrations, analysis, and more customised services and features than traditional banks. The sharing economy and expanding offers from neobanks may continue to challenge the traditional banking business model, just as mortgage originators and dealer financing have impacted traditional banks' mortgage and vehicle lending industries.

Neobanks: Banks by Any Other Name?

Author: By Terri Bradford

The findings of the study allowed for the classification of countries into groups based on the danger of fraudsters exploiting funds from individuals and economic actors to launder illicit earnings via neobanking chances. The sphere of neobank services is still relatively new. It has been actively developing since 2017, however there are already various issues connected to the level of protection of financial and economic information utilised in digital ecosystems. The aforementioned issues are generated by a growing number of cyber-fraudulent money laundering schemes (both at the state level and in neobanks operating under appropriate licencing circumstances), as well as a lack of public awareness of the peculiarities of neobank technology use. The study results could be used by relevant state financial monitoring services, law enforcement agencies, and economic actors in each country to detail all aspects of money laundering risk based on a specific gradation.

II. HOW NEOBANK WORKS

Neobanks fill the gap between traditional banks' services and the changing expectations of today's customers. They accomplish this through providing tailored experiences, utilising data-driven insights, and providing value-added services. Neobanks use current digital platforms to analyse client data and make data-driven choices, whereas traditional banks continue to struggle with transferring their legacy-based infrastructure into the digital age.

Neobanks can also reduce user fees significantly because they don't have to cover the costs of maintaining physical premises.

Because of their tech-driven nature, neobanks provide hassle-free account creation as one of their user experience advantages. Because Neobanks do not have physical locations in neighbourhoods, customers can open accounts from the comfort of their own homes using their mobile devices. The account can be available in a matter of minutes thanks to their technology-driven KYC process. They can use a neobank's service in the same manner that they can order meals from Zomato or book an Uber ride. Using a mobile application. Neobanks offers services through their mobile app. The way neobanks work is extremely straightforward, as are the prerequisites for starting one. Neobanks try to set themselves apart from traditional banks on a fundamental level, making them more appealing to digitally savvy customers (particularly Gen Z and millennials) who are increasingly frustrated with traditional banks' bureaucratic structure. They use the massive quantity of data they collect from their customers to better understand them, discover

problems, and develop solutions. Collecting and analysing data, as well as understanding how their clients engage in the financial ecosystem, becomes much easier because their systems are heavily computerised.

NEO BANKS FEATURES

- 1.They are cost-effective
2. Offer personalized financial services through A-I-powered technology
3. Do not have any physical branch network
4. They also operate a 24/7 financial service system

HOW ARE NEO BANKS GOING TO MAKE MONEY?

Neobanks have a different business model than traditional banks. Interchange fees paid by businesses whenever clients use a neobank debit card account for a substantial portion of their profit. For example, Chime, a popular neobank platform in the United States, has a user base of about 12 million and provides registered customers with a physical debit card. Visa charges a 1.5 percent fee whenever consumers use their Visa debit card to make a purchase. Visa, in turn, reimburses Chime neobank for a portion of the fees. Another major characteristic of neobank is that they profit from interchange fees anytime customers use a neobank credit card to make a purchase. The Nubank business model should be understood in context. Nubank is a Brazilian neobank with more than 40 million customers. They provide credit card services and charge a fee for each transaction its users make. They also earn from the interest charged on credit card accounts that have been overdrawn. Neobanks also gain from interest-bearing deposits and account opening fees. They benefit from the income received on ATM fees as well.

NEO BANKS vs. DIGITAL BANKS:

Even if they appear to be the same at times, a digital bank and a neobank are not the same. While the names are sometimes used interchangeably, they are not synonymous. Digital banks are frequently the online-only component of a larger banking corporation. Neobanks are totally digital financial institutions that operate independently of regular banks.

India's Potential and Growth:

With India's smartphone adoption expected to triple in the next several years, Neo banks in India have a lot of room to grow. Smartphone penetration in India reached 54 percent in 2020, and is expected to reach 96 percent by 2040. According to a poll, the number of smartphone users has doubled since 2016, when only 22% of mobile subscribers used one.

Three types of customers are targeted by neobanks:-

1. High-end customers are constantly on the search for a more seamless experience that spans all of their digital touchpoints, whether it's Apple, Amazon, or Facebook.
2. Customers who do not have access to quality banking and have unstable, irregular incomes but can benefit from a digital financial platform include those who do not have access to quality banking and those who have unstable, irregular incomes.
3. Customers with unique requirements, such as independent contractors, freelancers, and Uber drivers, may require very short-term loans to help them manage their cash flow.

MSME's account for approximately 95% of India's industrial units, yet they are not covered by traditional banks. Neo-banks provide a formal banking and credit system to these SMEs, allowing them to access financial services.

The fact that traditional banks are still unable to offer the same range of services safely and effectively on a digital platform is fuelling the emergence of neo-banks in India. With advancements in technology, neo-banks will only get bigger and better in the future. Neo-banks already contain real-time data and architecture that is similar to lego blocks, making it relatively simple to add new features and products.

Due to operational limits and legal barriers, the neobank sector is still in its infancy and is experiencing teething problems and growing pains.

III. CONCLUSION

As the world becomes more technologically advanced and moves closer to full digitalization, the concept of banking without banks and banks without branches is gaining traction. And, for the past few years, neo banks have been the way to go. Despite the fact that they are not physically present, neo banks operate on the internet collaborating with banks to provide the majority of financial services at a low cost. We, the customers are developing a greater understanding of computers and technology, and they are obtaining access to from their actual location, they can provide banking services. Also, with the unwelcomed COVID-19, this has gotten a lot of attention. People began to panic after the lockdown was implemented and they were unable to access their banks for any reason. I'm leaning toward e-services. Furthermore, these e-services the neo-banks brought them in. Nonetheless, these groups have attained the level of prominence that they should have. There are two explanations for this. People from Generations X and Y are notoriously bad at it. The reason for this is that Generations X and Y have experienced a lot of hardships, and as a result, they attempt to be cautious with their money. Taking their money online also does not seem to them to be the safest alternative. This is also one of the reasons they attempt not to change with the passage of time. Those who have evolved with the times have a firm grasp of technology, not only using it but also developing it. Those who are well-educated, such as those in industrialised countries, are attempting to adapt to this new technology. People in the United States, the United Kingdom, Australia, and other countries see this new technology as a way to avoid having to travel to other areas to do their tasks. As a result, western countries have had greater neo banking growth than Asian countries. Regardless of what a given demographic thinks about technology, we believe it will continue to grow. This is because technology will advance and people will become more informed. As technology like as RPA, APIs, and block chains advance, it will become increasingly difficult for businesses to compete.

REFERENCES

- [1.] Barba, R. (2021). 5 Questions To Ask Before Trying A Neobank | Bankrate.com. Retrieved 26 August 2021, from <https://www.bankrate.com/banking/5-questions-to-ask-before-trying-a-neobank/>
- [2.] Vartika Rawat & Ishan Shah, "Neobanks are democratizing services for SMEs" dated October 11, 2019, available at: <https://cfo.economictimes.indiatimes.com/news/neobanks-are-democratisingservices-for-smes/71540302>
- [3.] Arner, D. W., Barberis, J., & Buckley, R. P. (2015). The evolution of Fintech: A new post-crisis paradigm. *Geo. J. Int'l L.*, 47, 1271.
- [4.] Naser, N. (2019). The Interaction between Profitability and Macroeconomic Factors for Future Examinations of European Banks Soundness—Theoretical Study.
- [5.] Stagmeier, C., & Friedental, G. (2020). Neobank 2021: in races to profitability. *Strategy and Management*. Retrieved from <https://extonconsulting.com/it/2020/12/09/neobank-2021/>
- [6.] Watkins, Steve (2018). Neo-Banking: What – Another Innovation? Retrieved from <http://www.pertechindustries.com/neo-banking-what-another-innovation>.
- [7.] Yong Jae Shin, I. (2021). Harvard Business Publishing Education. Retrieved 26 August 2021, from <https://hbsp.harvard.edu/product/BH865-PDF-ENG>
- [8.] The Next Generation of Banks. (2021). Retrieved 26 August 2021, from <https://fincog.nl/publications/14/the-next-generation-of-banks>.
- [9.] Glushchenko, M., Hodasevich, N., & Kaufman, N. (2019). Innovative financial technologies as a factor of competitiveness in the banking. In *SHS Web of Conferences* (Vol. 69, p. 00043). EDP Sciences.
- [10.] Tosun, P. (2020). Brand trust for digital-only bank brands: consumer insights from an emerging market. In *ATLAS 7th International Conference on Social Sciences*. ATLAS.
- [11.] Hikida, R., & Perry, J. (2020). Fintech trends in the United States: Implications for household finance. *Public Policy Review*, 16(4), 1-32.
- [12.] Saksonova, S., & Kuzmina-Merlino, I. (2017). Fintech as financial innovation—The possibilities and problems of implementation.
- [13.] Ryan, B. J. (2019). The New Emerging Banks and Their Role in Payments. *The PayTech Book: The Payment Technology Handbook for Investors, Entrepreneurs and FinTech Visionaries*, 28-30.
- [14.] Boot, A. W., Hoffmann, P., Laeven, L., & Ratnovski, L. (2020). Financial intermediation and technology: What's old, what's new? (No. 2438). ECB Working Paper.
- [15.] Valero, S., Climent, F., & Esteban, R. (2020). Future Banking Scenarios. *Evolution of Digitalization in Spanish Banking*. JBAFP, 2(2), 0-0.
- [16.] Chakravorti, B., Bhalla, A. & Chaturvedi, R. (2020). Which Economies Showed the Most Digital Progress in 2020. Retrieved from [Link]



INNO SPACE
SJIF Scientific Journal Impact Factor
Impact Factor: 8.118



ISSN INTERNATIONAL
STANDARD
SERIAL
NUMBER
INDIA



INTERNATIONAL JOURNAL OF INNOVATIVE RESEARCH

IN SCIENCE | ENGINEERING | TECHNOLOGY

 **9940 572 462**  **6381 907 438**  **ijirset@gmail.com**



www.ijirset.com

Scan to save the contact details