

Modeling the Factors Influencing Customers' Intentions to Switch from Traditional Banks to Neo Banks in South India

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ABSTRACT: The dynamic digitization of the banking industry has resulted in the emergence of neo banks fully digital financial institutions offering innovative, efficient, and consumer-centric services. This study investigates the factors that determine customers' intentions to switch from traditional banks to neo banks in Bangalore, India. Employing a quantitative cross-sectional research design, data were collected from 200 respondents via a structured questionnaire. Four independent variables were examined: digital convenience, service quality, social influence, and cost advantage, with switching intention as the dependent variable. Data were analysed using SPSS through descriptive statistics, reliability analysis (Cronbach's $\alpha = 0.884$), Pearson correlation analysis, independent samples t-tests, and chi-square tests. Results reveal that all four variables are significantly and positively associated with switching intention. Social influence and cost advantage emerged as the most influential determinants. Demographic factors particularly age and education level also play a significant moderating role. The findings contribute empirical evidence from a developing economy context and provide actionable insights for both traditional banks and neo banks.

KEYWORDS: Neo banks, digital convenience, service quality, cost advantage, social influence, switching intentions, banking behavior, Bangalore.

I. INTRODUCTION

The banking industry has undergone profound transformation over the past decade, driven by rapid technological advancement, shifting consumer expectations, and the emergence of digital-first financial players. Traditional banks, which have long dominated through extensive branch networks and comprehensive service portfolios, now face intensifying competition from neo banks digital-only financial institutions that leverage modern technology to deliver personalized, affordable, and seamless banking experiences.

In India, digital financial inclusion has accelerated significantly through government initiatives, rising smartphone penetration, and a robust digital infrastructure. Bangalore, widely recognized as India's technology hub, represents a particularly fertile environment for neo banking adoption. Its demographic composition predominantly young, educated, and technology-oriented professionals offers a compelling setting to examine the behavioural antecedents of banking switching decisions.

Despite growing academic interest in digital banking, the specific dynamics of customer migration from traditional to neo banking platforms remain insufficiently studied, particularly in the context of developing economies. The complexity of switching intentions is shaped by multiple interacting factors: technological readiness, risk perception, cost considerations, service quality perceptions, and social influence. This study seeks to bridge these gaps by developing and testing a comprehensive model of customer switching intentions in Bangalore, thereby generating insights that are of theoretical and managerial relevance.

II. LITERATURE REVIEW

2.1 Technology Acceptance and Digital Banking

Research on technology acceptance in financial services has consistently identified perceived usefulness and ease of use as fundamental drivers of adoption (Davis, 1989). Subsequent frameworks, including UTAUT2 (Venkatesh et al.,

2012), extended these constructs to incorporate social influence, hedonic motivation, and habit. Alalwan et al. (2017) demonstrated that trust, together with performance expectancy and effort expectancy, significantly shapes mobile banking adoption intentions among Jordanian customers findings that carry implications for neo banking adoption in comparable emerging market contexts.

Pikkarainen et al. (2004) established that perceived usefulness and information provision are significant predictors of online banking acceptance, while Kesharwani and Singh Bisht (2012) extended the TAM to include trust and perceived risk dimensions, underscoring the importance of user-friendly interfaces and security mechanisms in facilitating technology adoption.

2.2 Customer Switching Behaviour

Bansal et al. (2005) developed a comprehensive framework integrating push, pull, and mooring factors to explain customer switching across service industries. In the banking context, dissatisfaction with incumbent service providers (push), attractive alternatives (pull), and habitual attachment to existing providers (mooring) jointly determine switching propensity. This framework provides the conceptual foundation for understanding why customers may leave traditional banks for neo banking platforms.

Hernández et al. (2009) highlighted the moderating role of prior digital experience in shaping electronic commerce behaviour, with relevant parallels to digital banking migration. Laukkanen (2007) identified generational and demographic differences in banking channel preferences, offering insights into which consumer segments are most predisposed to neo bank adoption.

2.3 Service Quality, Social Influence, and Cost Factors

Deb and Lomo-David (2014) demonstrated that reliability, responsiveness, and convenience are pivotal determinants of customer satisfaction in mobile banking, paralleling the service quality dimensions identified in the SERVQUAL framework. Hanafi Zadeh et al. (2014), in a systematic review of internet banking adoption, identified convenience, accessibility, and cost savings as primary motivators for digital banking uptake.

Social influence encompassing peer recommendations, online reviews, and social media has been identified as a significant predictor of technology adoption decisions (Hernández et al., 2009). Jaruwachirathanakul and Fink (2005) emphasized cost-benefit considerations as important switching determinants in developing market contexts, with pricing transparency and lower fee structures serving as key competitive advantages for digital banks.

2.4 Research Gaps

The extant literature on customer switching behavior has largely concentrated on transitions between providers within the same institutional category, rather than migration across fundamentally different banking paradigms. Empirical research on neo banking adoption in India and specifically in Bangalore remains sparse. Additionally, existing models inadequately capture multi-dimensional risk perceptions, temporal dynamics of switching decisions, and the interplay of demographic factors in shaping neo banking intentions. This study directly addresses these gaps.

III. THEORETICAL FRAMEWORK AND HYPOTHESES

This study draws upon multiple complementary theoretical traditions. The Technology Acceptance Model (Davis, 1989) informs the digital convenience construct, while the Service Quality Theory underpins the service quality dimension. The Social Influence Theory (Bandura, 1986) supports the social influence variable, and Rational Choice Theory (Kahneman & Tversky, 1979) frames the cost advantage construct. The Consumer Behavior Theory contextualizes the moderating role of demographics.

The following hypotheses were formulated:

- H1:** Digital convenience has a significant positive impact on customer switching intentions toward neo banks.
- H2:** Perceived service quality has a significant positive impact on customer switching intentions toward neo banks.
- H3:** Social influence has a significant positive impact on customer switching intentions toward neo banks.
- H4:** Cost advantage has a significant positive impact on customer switching intentions toward neo banks.

IV. RESEARCH METHODOLOGY

4.1 Research Design

A quantitative cross-sectional survey design was employed, consistent with a positivist research philosophy and deductive reasoning approach. This methodology enables statistical hypothesis testing and supports the development of predictive models through numerical data analysis.

4.2 Sample and Data Collection

The target population comprised traditional bank customers aged 20 to 55 years residing in metropolitan Bangalore, who possessed awareness of neo banking services. A multi-stage sampling approach was adopted: stratified sampling at the first stage, followed by convenience sampling. The minimum target sample of 200 respondents was determined through power analysis. Data were collected over an eight-week period via a structured online questionnaire distributed through social media platforms, professional networks, and email campaigns. Quality controls included attention-check items and response-time monitoring, with incomplete or suspicious responses excluded from analysis.

4.3 Measurement Instruments

Four independent variables were operationalized: (1) Digital Convenience three items assessing mobile app functionality, online availability, and transaction ease; (2) Service Quality seven items adapted from the SERVQUAL scale covering reliability, responsiveness, assurance, empathy, and tangibles; (3) Social Influence three items capturing peer recommendations, online reviews, and social media impact; and (4) Cost Advantage three items measuring perceptions of lower fees, better interest rates, and overall cost savings. The dependent variable, Switching Intention, was measured using a five-item scale. All constructs employed five-point Likert scales (1 = Strongly Disagree; 5 = Strongly Agree). Demographic variables (age, income, education, occupation) served as controls.

4.4 Analytical Approach

Data were analysed using SPSS. Descriptive statistics characterized the sample. Reliability was assessed via Cronbach's Alpha. Pearson correlation coefficients examined inter-construct relationships. Independent samples t-tests evaluated group-level mean differences. Chi-square tests of independence assessed associations between categorical demographic variables and construct means.

V. RESULTS AND ANALYSIS

5.1 Demographic Profile

The final sample comprised 200 valid respondents (100% response completion rate, no missing data). The age distribution revealed that 29% of respondents were aged 20–30 years, 25% were aged 31–40 years, 21% were aged 41–50 years, and 8.5% were above 50 years; approximately 75% of the sample was below 40 years of age. Income distribution was relatively balanced across four brackets: below ₹20,000 (24.5%), ₹20,001–₹50,000 (25.5%), ₹50,001–₹1,00,000 (22%), and above ₹1,00,000 (28%). With respect to education, 43% held postgraduate degrees, 36% held bachelor's degrees, 14% had secondary-level qualifications, and 7% held doctorates—indicating a predominantly highly educated sample well-acquainted with digital technologies.

Table 1. Demographic Distribution of Respondents (N = 200)

Variable	Category	Frequency	Percent (%)
Age	20–30 years	58	29.0
	31–40 years	50	25.0
	41–50 years	42	21.0
	Above 50 years	17	8.5
Income (Monthly)	Below ₹20,000	49	24.5
	₹20,001–₹50,000	51	25.5

	₹50,001–₹1,00,000	44	22.0
	Above ₹1,00,000	56	28.0
Education	Secondary/High School	28	14.0
	Bachelor's Degree	72	36.0
	Master's Degree	86	43.0
	Doctorate	14	7.0

5.2 Reliability Analysis

The overall Cronbach's Alpha for the four constructs was 0.884, exceeding the widely accepted threshold of 0.70 and indicating high internal consistency. Item-total correlations for Digital Convenience ($r = 0.715$), Service Quality ($r = 0.770$), Social Influence ($r = 0.779$), and Cost Advantage ($r = 0.725$) all exceeded the desirable minimum of 0.50. Importantly, the removal of any single item would reduce the overall alpha (ranging from 0.838 to 0.863), confirming that all items meaningfully contribute to scale reliability.

Table 2. Reliability Statistics and Item-Total Correlations

Construct	Cronbach's α (Overall)	Item-Total Correlation	α if Item Deleted
Digital Convenience	0.884	0.715	0.863
Service Quality	0.884	0.770	0.842
Social Influence	0.884	0.779	0.838
Cost Advantage	0.884	0.725	0.859

5.3 Correlation Analysis

All bivariate correlations were statistically significant at the 1% level ($p < 0.01$). The strongest correlation was observed between Social Influence and Cost Advantage ($r = 0.690$), suggesting that socially influenced customers tend to perceive greater cost benefits. Digital Convenience and Service Quality exhibited a strong association ($r = 0.672$), indicating that enhanced digital functionality is associated with improved service quality perceptions. The Digital Convenience–Social Influence correlation ($r = 0.631$) and the Service Quality–Cost Advantage correlation ($r = 0.634$) further confirmed the interconnected nature of the constructs. No correlation approached 0.80, mitigating multicollinearity concerns.

Table 3. Pearson Correlation Matrix

Variable	Digital Convenience	Service Quality	Social Influence	Cost Advantage
Digital Convenience	1.000	0.672**	0.631**	—
Service Quality	0.672**	1.000	—	0.634**
Social Influence	0.631**	—	1.000	0.690**
Cost Advantage	—	0.634**	0.690**	1.000

** Correlation is significant at the 0.01 level (2-tailed).

5.4 Independent Samples T-Test

The independent samples t-test, comparing respondents who strongly agreed versus strongly disagreed on all study variables, yielded statistically significant differences for all four constructs ($p < 0.001$). The largest mean difference

was observed for Social Influence, confirming its primacy as a driver of switching intentions. Cost Advantage also demonstrated substantial mean differences, reinforcing its role as a key switching motivator. These results confirm H1 through H4, supporting the significant positive influence of all constructs on switching intentions.

5.5 Chi-Square Analysis: Demographic Moderation

Chi-square tests of independence revealed a statistically significant relationship between age and Digital Convenience ($\chi^2 = 40.394$, $df = 16$, $p = 0.001$). Respondents aged 20–30 demonstrated the most favorable attitudes toward digital banking features, while older respondents exhibited comparatively negative perceptions. A significant association was also found between education level and Service Quality perceptions ($\chi^2 = 22.087$, $df = 12$, $p = 0.037$), with postgraduate and doctoral respondents showing markedly more positive service quality ratings. These results confirm that demographic characteristics moderate perceptual relationships within the neo banking adoption context. It is noted that a proportion of cells (35–36%) had expected frequencies below five, warranting cautious interpretation of chi-square outcomes.

VI. FINDINGS AND DISCUSSION

The findings establish that digital convenience, service quality, social influence, and cost advantage each exert a significant positive influence on customer switching intentions toward neo banks among Bangalore respondents. Social influence emerged as the most powerful predictor, underscoring the critical role of peer recommendations, online reviews, and social media in shaping financial decision-making. This aligns with Social Influence Theory (Bandura, 1986) and extends prior findings in digital banking adoption literature to the neo banking context.

Cost advantage was the second most influential predictor, consistent with Rational Choice Theory's emphasis on benefit maximization. Customers are drawn to neo banks' lower transaction fees, competitive interest rates, and cost transparency. Service quality encompassing responsiveness, reliability, and accessibility demonstrated strong associations with switching intentions and with digital convenience, confirming that operational excellence in the digital domain directly amplifies service quality perceptions.

Demographic moderation by age and education has significant implications. Younger, more educated respondents exhibit considerably greater openness to neo banking a finding that underscores the need for age-tailored market strategies. Traditional banks may leverage legacy trust among older demographics, while neo banks should prioritize simplified onboarding experiences for less digitally experienced users.

These results are consistent with and extend the frameworks of Alalwan et al. (2017), Bansal et al. (2005), and Hanafizadeh et al. (2014), while providing novel empirical evidence from a developing economy characterized by a high density of technology professionals.

VII. THEORETICAL AND MANAGERIAL IMPLICATIONS

7.1 Theoretical Contributions

This study makes several theoretical contributions. First, it validates the applicability of TAM in the neo banking adoption context, confirming that digital convenience is a fundamental perceptual driver. Second, it extends Service Quality Theory by demonstrating strong covariance between digital convenience and service quality perceptions in a fully digital banking environment. Third, it provides empirical corroboration for Social Influence Theory and Rational Choice Theory in the specific context of banking platform switching decisions. Fourth, by incorporating demographic moderators, the study aligns with Consumer Behaviour Theory, demonstrating that sociodemographic characteristics meaningfully differentiate adoption attitudes.

7.2 Managerial Recommendations

For neo banks, social influence should be central to customer acquisition strategies investment in referral programs, influencer engagement, and user-generated review platforms is strongly warranted. Clear communication of cost advantages (fee transparency, interest rate competitiveness) will be decisive for cost-sensitive consumer segments. Enhanced digital UX and platform reliability will simultaneously improve digital convenience perceptions and service quality ratings.

Market segmentation should prioritize the 20–30 age cohort through cutting-edge technology products, while offering guided onboarding and educational resources for older demographics. Well-educated customers may benefit from customized financial planning features; less-educated segments should receive simplified, accessible service interfaces. For traditional banks, accelerating digital transformation and addressing the gap in service quality perception relative to neo banks will be essential for retention.

VIII. LIMITATIONS AND DIRECTIONS FOR FUTURE RESEARCH

Several limitations must be acknowledged. The sample size of 200 respondents limits statistical power, and the Bangalore-specific geographic scope constrains generalizability. Self-reported data may introduce social desirability bias. Chi-square tests were affected by low expected cell frequencies in some analyses. The cross-sectional design precludes causal inference and longitudinal tracking of switching behaviour. Furthermore, the model does not incorporate potentially important variables such as perceived security, regulatory awareness, and trust.

Future research should expand sample sizes and adopt multi-city designs to enable comparative analyses across demographic and cultural contexts. Longitudinal studies would allow examination of behavioural change over time. The inclusion of additional constructs including security perceptions, risk appetite, and regulatory trust would enhance model comprehensiveness. Advanced methods such as Structural Equation Modelling (SEM) would enable simultaneous testing of direct and mediated relationships, providing a more nuanced understanding of the antecedents of neo banking adoption.

IX. CONCLUSION

This study provides comprehensive empirical evidence of the multi-dimensional nature of customer switching intentions from traditional banks to neo banks in Bangalore. Social influence and cost advantage emerged as the paramount drivers of switching intentions, complemented by meaningful contributions from digital convenience and service quality. Demographic factors particularly age and educational attainment significantly moderate these relationships, signaling the importance of segmented strategic approaches.

The findings affirm that neo banking success is contingent upon an integrated strategy that aligns technological innovation, economic value proposition, and trust-building through social ecosystems. For the banking sector at large, these insights offer actionable guidance for customer retention and acquisition in an increasingly competitive digital financial landscape.

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