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Neo banking ecosystem in India: Drivers, opportunities, and strategic implications for the financial sector

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Abstract

Neo banking in India signifies a substantial transformation in the financial services sector, marked by the increasing integration of digital technologies. This study offers a comprehensive overview of the current state of Neo banking in India, concentrating on its evolution, growth drivers, challenges, and future prospects of the industry. Neobanks operate exclusively online without physical branches and provide a range of banking services through partnerships with licensed banks. They play a pivotal role in enhancing financial inclusion, particularly among underbanked and unbanked populations. The rise of neo banking is propelled by advancements in digital technologies, widespread smartphone adoption, supportive government initiatives, and changing consumer preferences. Key participants in the Indian neo banking sector include retail-focused platforms such as Jupiter, Fi Money, and Niyo, and SME-focused platforms such as Open, Razorpay X, and ZikZuk. Neobanks offer advantages such as reduced costs, personalized services, expedited account opening, and user-friendly interfaces, leveraging technologies such as AI, machine learning, and data analytics. However, they encounter challenges such as regulatory uncertainties, data privacy concerns, building customer trust, and achieving profitability. The future outlook suggests potential regulatory evolution, market consolidation, expansion of product portfolios, and strategic partnerships. The sustainable growth of neo banking will necessitate navigating a competitive landscape, adapting to evolving regulations, focusing on customer-centric innovation, and promoting financial inclusion. This study concludes that neo banking represents a significant transformation of India's banking sector, driven by digital innovation and aimed at enhancing customer experience and promoting financial inclusion. However, ongoing efforts are essential to address existing gaps and challenges.

Keywords: Neo Banking, digital technologies, financial inclusion, challenges, growth drivers, future prospects, regulatory environment, etc.

1. Introduction

1.1 Background of the study

Neo banking in India represents a significant transformation within the financial services sector, characterized by the increasing integration of digital technologies. This evolution is driven by initiatives such as the Indian government's Digital India Program, which aims to embed digitalization across various sectors, including banking, to facilitate smoother transactions and enhance customer satisfaction (Gupta *et al.*, 2022) ^[11]. The burgeoning digital banking ecosystem in India is propelled by rapid technological advancements and the growing prevalence of digital banking and financial services in India. Consumers, particularly in urban areas, increasingly prefer digital channels over traditional physical branches because of the convenience, speed, and enhanced user experiences these platforms offer (Singh & Kaunert, 2024) ^[29]. During the COVID-19 pandemic, financial institutions undertook substantial measures to enhance their digital offerings and ensure service continuity through digital channels (Gupta *et al.*, 2022) ^[11]. This period underscored the necessity of digital transformation for banks aiming to meet customer demand while maintaining operational efficiency. The integration of technologies such as Artificial Intelligence (AI) and Machine Learning (ML) into banking operations has significantly improved the efficiency, productivity, and customer experience of these digital platforms (Singh & Kaunert, 2024) ^[29]. Furthermore, neo banks, often start-up banks operating exclusively online without traditional branch networks, are becoming notable players in this digital revolution.

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By leveraging technology, neo banks offer a streamlined, cost-effective alternative for personal and business banking, fostering financial inclusion and enabling broader access to financial services across diverse customer segments (Singh & Kaunert, 2024) ^[29]. Technological advancements have also introduced challenges, particularly in ensuring data security and privacy, which banks are addressing through robust AI and ML frameworks. This secure environment is crucial as digital banking continues to expand across India (Singh & Kaunert, 2024) ^[29]. Despite these advances, certain challenges persist, particularly regarding the financial inclusion of marginalized populations. In rural India, for example, research indicates that merely declaring areas as cashless is insufficient without ensuring the underlying financial literacy and digital access required to perform digital transactions effectively (Cnaan *et al.*, 2021) ^[5]. This highlights the need for comprehensive strategies that encompass both technological advancements and educational initiatives to maximize the potential benefits of neo banking across India. Overall, neo banking in India represents a critical evolution in the banking sector, driven by digital innovations and a supportive regulatory environment aimed at fostering financial inclusion and enhancing customer experience (Ray & Mohan, 2024) ^[27]. However, ongoing efforts are required to address existing gaps and ensure that digital transformation benefits all segments of the Indian population equally.

2. Concept of Neo-Bank

Neo-banks in India constitute a significant and rapidly evolving component of the financial sector, characterized by fully digital operations and the absence of physical branches. The following are the essential aspects of neo banking in India based on the available information:

- **Definition of Neo-banks:** Neo-banks are entirely digital financial platforms that operate without physical branches. They offer a range of banking services, including account management, financial transactions, and customer support, exclusively via digital channels.
- **Indian Model of Neo-Banking:** Unlike traditional banking institutions, Indian neo-banks do not hold independent banking licenses. Instead, they operate through strategic partnerships with licensed banks. This operational framework allows them to offer banking services while adhering to the regulatory requirements. For example, they often collaborate with banks licensed by the Reserve Bank of India (RBI), such as DCB Bank and SBM Bank, to leverage their licenses and infrastructure.
- **Role in Financial Inclusion:** Neo-banks, in collaboration with fintech companies, significantly contribute to enhancing financial inclusion in India. Their objective is to serve underbanked and unbanked populations by offering accessible and user-friendly digital banking solutions (Asif *et al.*, 2023) ^[1].
- **Technological Advancements:** The rise of neobanks in India is primarily driven by advancements in digital technologies and the widespread adoption of smartphones and Internet services. This transition towards digital platforms aligns with broader global trends favouring cashless and convenient banking solutions (Gupta *et al.*, 2022) ^[11].
- **E-Collaboration with Traditional Banks:** Neobanks often form strategic alliances with established financial

institutions and fintech companies to offer innovative financial services. These collaborations are crucial for integrating technology into traditional banking operations and enhancing service delivery (Bhasin & Rajesh, 2021) ^[2].

- **Challenges and Opportunities:** Although neobanks offer numerous advantages, they face challenges in establishing customer trust, ensuring data security, and effectively integrating with existing banking infrastructure. Nonetheless, their collaboration with traditional banks and utilization of advanced technologies present significant opportunities for growth and innovation within the financial sector (Bhasin & Rajesh, 2021) ^[2].

This discussion provides a comprehensive overview of neo banking in India, highlighting its digital attributes, operational model characterized by partnerships with licensed banks, and its role in advancing financial inclusion (Asif *et al.*, 2023; Bhasin & Rajesh, 2021) ^[1, 2].

3. Problem Statement

Neo banking in India is undergoing substantial expansion through digital transformation. Operating exclusively online, neobanks provide agile, customer-centric financial services tailored to contemporary consumers. This demand arises from advancements in fintech and the need for seamless banking experiences. Companies utilize artificial intelligence, block chain, and big data analytics to deliver efficient services (Faour and Al-Sowaidi, 2023) ^[9]. These innovations compel traditional banks to collaborate with fintech companies to enhance their offerings and maintain their competitiveness (Bhasin & Rajesh, 2021) ^[2]. Neobanks prioritize convenience and target underbanked and digitally savvy consumers. AI and machine learning offer personalized experiences and predictive analytics, thereby democratizing financial services (Nwoke, 2024) ^[21]. In India, where many individuals lack access to traditional banking, FinTech innovations provide transformative solutions. Digital banking has increased financial inclusion, particularly in remote areas (Asif *et al.*, 2023) ^[1]. Digital-first models facilitate competitive pricing and superior interest rates compared to traditional banks, addressing consumer demands for instant, cost-effective services (Chen, 2024) ^[4]. The emergence of neo banking signifies a shift towards an inclusive, efficient financial ecosystem, with its agile nature enabling rapid adaptation to technological changes and consumer needs.

4. Literature Review

Numerous scholarly articles have been authored by researchers examining various aspects of neo-banking in India. This study reviews the most significant articles, which are detailed below.

Rao and Suresh (2023) ^[26] analyzed Indian neobanks as innovative digital financial institutions that operate online. Neobanks have transformed banking through swift account opening, cost-effectiveness, and technological integration, including, Artificial Intelligence (AI), blockchain, and application programming interfaces (APIs). They enhance financial inclusion by providing faster services to customers, particularly MSMEs. However, challenges include RBI regulatory barriers, cyber security risks, and limited brand recognition. The study indicates that

increasing digital adoption could support the future expansion of neobanks in India and improve their profitability.

Thakur *et al.* (2023) ^[32] examined neo banking, a technology-driven alternative to conventional banking. Neobanks are online institutions that use advanced technologies to provide consumer services. The study analyzed their functionalities and impact through an 80-respondents survey using Excel, Regression Analysis, and ANOVA. The results show that service quality, ease of use, and security are correlated with customer satisfaction. Most participants reported satisfaction with the reliability and security of neobanks. User-friendly interfaces have increased adoption, and customers view Neobanks as cost-effective alternatives. Neo banking's popularity stems from its security and convenience, although improvements in the user experience are needed. The study concludes that neo banking meets tech-savvy clients' needs while remaining compatible with traditional institutions.

Vidya (2023) ^[34] examined neo banks' digital disruption in India's banking sector. Neobanks are online entities that offer banking services through digital platforms and serve tech-savvy customers. They partner with traditional banks for financial products and use technology to provide personalized services. Growth in India is driven by financial inclusion, digital transactions, millennials, cost-effectiveness, competition, and COVID-19. Like regulated banks, neobanks face outsourcing obligations and Reserve Bank of India monitoring. They provide easy account opening, user-friendly interfaces, higher interest rates, 24/7 support, lower costs, and easy international payments. Challenges include a lack of branches, trust, security, limited services, regulatory issues, and institutional dependence. The study concludes that although neobanks have growth potential in India, with a projected CAGR of 53.4% (2022-2030), but must address regulatory, security, and integration challenges.

Rajitha and Sivakumar (2019) ^[25] examined neo banking in India. Neobanks are digital financial institutions that operate exclusively through mobile applications and PC platforms, providing banking services with existing banks without their own banking licenses. Key neo banking initiatives in India include NiYO for salaried employees, 811 by Kotak Mahindra Bank, Open (with ICICI Bank) for SMEs, YONO by SBI offering banking and lifestyle services, and Instant Pay for SME payment management, among others. Neobanks provide rapid account opening, free debit cards, international payments, user-friendly interfaces, 24/7 support, and expense analysis. Challenges include customer acquisition and revenue generation, as most services are free. The study concludes that neobanks are transforming Indian banking, with traditional banks adopting this system.

Patil (2025) ^[23] examined the evolution of neobanks in the financial sector in India. Neobanks are digital-only institutions that operate without physical branches and are growing due to smartphone adoption and supportive policies. This study uses descriptive methods and secondary data to analyze neo bank development, regulations, and impact. The findings show that neobanks reduce costs through digital operations and partnerships with regulated institutions to offer financial services. Compared to traditional banks, they are more cost-effective and offer customizable products and services. India's fintech market is projected to reach \$150 billion by 2025. Neobanks face

regulatory uncertainties and cybersecurity risks, and opportunities exist in rural markets. Their success depends on innovation and consumer trust.

Kumar (2022) ^[16] analyzed neo banking in India. Neobanks are digital-only fintech entities that provide banking services without physical branch offices. They use robotics, machine learning, and artificial intelligence to address traditional banking challenges. Neo banking shows growth potential in India as consumers move away from branch banking, accelerated by COVID-19's digital transformation. Neobanks offer advantages such as simplified account opening, lower costs, user-friendly interfaces, faster loan processing, and enhanced security. However, they face challenges, including regulatory issues, as they remain unregulated by the Reserve Bank of India and require a robust security infrastructure to prevent misuse. This study suggests that neobanks could replace conventional banks pending the resolution of regulatory and security concerns in the future.

Darshan *et al.* (2024) ^[6] overviewed Neo Banking, a digital banking phase. Neobanks are fintech entities that offer digital financial services at reduced costs and operate online without physical branches. They provide easy account opening, cloud storage, and online payment services in collaboration with traditional banks. This study examines the growth of Neo Banking in India, noting Finin as the first Neo Bank in 2019. Compared to traditional banks, neobanks offer lower costs and faster decision-making. This study forecasts market growth but notes challenges such as limited regulations and low customer awareness. A survey showed high mobile wallet awareness but low neo banking awareness, although users rated the services as efficient. The study concludes that neo banking could significantly impact the future of banking, especially in terms of customer experience and streamlining.

Prasad (2024) ^[24] examined the influence of neo banking on Indian banks. Neobanks provide online-only digital banking services through partnerships with conventional banks. They differ from traditional banks in terms of their regulations and operations. The growth of neo banking in India stems from technology, regulations, and COVID-19's impact. The key players include Niyo, InstantPay, Jupiter, RazorpayX, and NITI Aayog. Neobanks offer benefits such as lower fees and digital tools, but face challenges, including a lack of physical presence in the market. The study concludes that neo banking has a promising future in India, emphasizing the collaboration between banks, fintech firms, and regulators for financial inclusion.

Umakanth *et al.* (2023) ^[33] explored consumer perceptions of neo-banking services among Indian youth. Data were collected through an online survey using Google Forms for two weeks. The findings show low awareness of neo banking among youth despite UPI usage, with 57% of the respondents never having conducted online transactions. Among neo banking users, 71.4% had one account, with family and friends being the primary sources of awareness of neobanks. Users allocate an average of 52% of their funds to their neobanks accounts. This study recommends that neobanks build trust, offer secure interfaces, and enhance their unique selling propositions. They should differentiate themselves from traditional digital banking, improve security, target time-sensitive customers, and develop customer education and referral programs to achieve this.

Kailashbhai (2025) ^[14] studied neo-banking in India, digital financial institutions without physical branches. This study examined the growth drivers, challenges, services, and prospects. Using a descriptive approach, the literature, data, and case studies were analyzed. Growth drivers include digital adoption, smartphone use, fintech collaboration, and financial inclusion. Challenges include regulatory constraints, cyber security threats, reliance on traditional banks, and market competition. The neo banking market is projected to grow at a CAGR of over 50% between 2016 and 2025. Success depends on regulatory compliance, cyber security, and market differentiation. Neobanks are transforming India's banking system with innovative, customer-centric solutions, leveraging technology, and addressing regulatory challenges in India.

5. Research Gap

Research on neobanks in India is lacking in many areas. Few studies have examined how neobanks can survive in the long term, especially with rules and competition from regular banks. There is insufficient research on how neobanks help people in rural areas and on cybersecurity risks. More studies are also needed on how AI, block chain, and APIs work in the context of neobanks. There is little research comparing neobanks and regular banks in terms of performance and customer satisfaction. We do not know much about how neobanks affect the economy and what rules are needed to protect consumers as they expand their operations. There is also insufficient research on what makes customers trust neobanks, how different groups feel about them, and how neobanks can collaborate with other financial technology companies. Finally, more studies are needed to determine how neobanks impact the environment compared to regular banks.

6. Scope of the study

This study investigates the factors contributing to the emergence of neobanks in India's financial sector. It examines the role of Digital Transformation, specifically analysing how AI and ML technologies have reshaped consumer expectations in the banking industry (El-Gohary *et al.*, 2021; B. Singh & Kaunert, 2024) ^[8, 29]. This study explores Consumer Adoption and Behaviour, focusing on behavioural intentions regarding the adoption of digital banking, considering factors such as ease of use, security, and customer support (S. Singh & Srivastava, 2020) ^[30]. The Impact of COVID-19 is analyzed, particularly its role in accelerating the transition to digital banking and the response of neobanks to these changes (Gupta *et al.*, 2022) ^[11]. This study assesses the contribution of neobanks to Financial Inclusion, examining their potential to serve underbanked populations through technological innovations (Asif *et al.*, 2023; Dwivedi *et al.*, 2021) ^[1]. It evaluates Collaboration with Fintech by examining partnerships between traditional banks and fintech companies (Bhasin & Rajesh, 2021) ^[2]. This research explores the Branding and Market Positioning of traditional banks in the context of neo banking, focusing on the alignment of digital initiatives with parent brands (Mogaji & Nguyen, 2024) ^[20]. This study provides an overview of the influence of neobanks on transforming Indian banking through technological, consumer, and collaborative aspects.

7. Research Objectives

The objectives of this study are as follows: (i) to trace the

evolution and development of neo banking in India, (ii) to identify and analyse the various business models adopted by neobanks, (iii) to examine the key drivers and opportunities that are fuelling their growth, (iv) to assess the major challenges and regulatory hurdles faced by the sector, and (v) to discuss the future outlook and potential strategies for neobanks.

8. Research Methodology

The research design of this study incorporated both descriptive and analytical methodologies. Data collection involved the acquisition of qualitative data from secondary sources, including pertinent research articles, papers, journals, research-based publications, web resources, regulatory documents, and discussion papers from the Reserve Bank of India (RBI). The methodology for obtaining secondary data includes industry reports from organizations such as BCG, CII, and PwC, as well as publications from the Reserve Bank of India (RBI), company websites, and reputable news outlets. Additionally, financial news articles and case studies of prominent neobanks were utilized. The data analysis employed thematic analysis to discern key trends, challenges, and opportunities, and to identify and structure the principal themes: models, drivers, challenges, and regulations.

9. The Evolution and Landscape of Neo Banking in India

The present section of the study is systematically divided into five subsections: Historical Context, Evolution and Genesis, Market Size and Growth Trends, Key Players and Their Offerings, and Operational and Revenue Business Models. Each of these subsections is elaborated in detail below.

9.1 Historical Context: The Indian banking sector has undergone significant transformation owing to technological advancements and policy interventions focused on digitalization and financial inclusion (Gupta *et al.*, 2022) ^[11]. The government has been instrumental in advancing digital banking through initiatives such as the Digital India Programme and Pradhan Mantri Jan Dhan Yojana, which have significantly enhanced financial inclusion by enabling the opening of bank accounts for millions of previously unbanked individuals (Dwivedi *et al.*, 2021) ^[1].

9.2 Evolution and Genesis: Neobanks, driven by technological advancements and financial innovations, have emerged as significant entities within the financial ecosystem by providing entirely digital and app-based banking solutions, devoid of traditional physical branches (Bhasin & Rajesh, 2021) ^[2]. The widespread adoption of smartphones and the transition towards electronic transactions have facilitated the rise of neobanks, offering convenience and efficiency to customers who prefer digital interfaces (S. Singh & Srivastava, 2020) ^[30]. The collaboration between traditional banks and fintech companies has further accelerated the growth of neo banking, combining the extensive reach of traditional banks with the technological expertise of fintech firms (Bhasin & Rajesh, 2021) ^[2].

9.3 Market Size and Growth Trends: The neo banking sector in India is undergoing substantial expansion, propelled by advancements in digital technologies such as artificial intelligence, machine learning, and big data

analytics, which enhance customer experiences and operational efficiencies (B. Singh & Kaunert, 2024) ^[29]. This expansion is marked by an increasing number of digital touchpoints, improved security features, and a streamlined user interface, making digital banking an appealing option for a wider segment of the population (Gupta *et al.*, 2022) ^[11]. Moreover, the trend towards financial inclusion and the growing adoption of mobile and online banking services indicate that neobanks will continue to play a crucial role in transforming the Indian financial landscape (Asif *et al.*, 2023) ^[1].

9.4 Key Players and Their Offerings:

The evolution of neo banking in India represents a significant transformation within the banking sector, characterized by the rise of fintech companies that deliver innovative banking solutions to previously underserved segments of the population. This study offers a comprehensive analysis of the current state of Neo Banking in India, concentrating on two primary sectors: Retail-focused and SME-focused neo banking.

9.4.1 Retail-Focused Neo Banking

- **Jupiter:** Jupiter strategically targets salaried professionals and millennials by offering a seamless banking experience through a mobile-first approach. This strategy prioritizes the simplification of routine banking tasks through user-friendly interfaces and features that cater to the demands of contemporary lifestyles.
- **Fi Money:** Fi Money is tailored specifically for young professionals and offers a personalized banking experience that emphasizes financial well-being. It incorporates intelligent insights, savings options, and spending controls to enhance users' financial management capabilities.
- **Niyo:** Niyo strategically targets consumers who are proficient in digital technologies by offering competitive exchange rates for international transactions and maintaining zero-balance accounts. The platform provides a comprehensive digital banking experience by integrating traditional banking services with investment opportunities in the crypto space.

9.4.2 SME-focused Neo-Banking:

- **Open:** Open is acknowledged for its extensive business banking solutions that integrate conventional banking services with modern financial management tools. It offers features such as automated accounting, expense management, and invoicing, which are specifically tailored to address the requirements of small-to medium-sized enterprises (SMEs).
- **Razorpay X:** As a fundamental component of the Razorpay suite, this platform provides sophisticated banking tools specifically designed for business enterprises. Razorpay X enhances operational efficiency by offering real-time transaction insights, facilitating automated payouts, and managing payroll, thereby addressing the diverse needs of businesses.
- **ZikZuk:** ZikZuk is committed to empowering small and medium-sized enterprises (SMEs) by providing a comprehensive array of financial management services. These services include automated bookkeeping, inventory management, and cost-effective banking.

Through these offerings, ZikZuk aids businesses in optimizing their financial operations and enhancing their financial transparency.

Neo-banks are at the forefront of transforming India's banking sector by leveraging technology to enhance financial inclusion and provide customized solutions that address the needs of individuals and enterprises. Through innovative platforms, they effectively bridge the gap between traditional banking services and the demands of a digitally driven world, particularly in the context of India's evolving financial ecosystem (Asif *et al.*, 2023; Dwivedi *et al.*, 2021; Gupta *et al.*, 2022) ^[1, 7, 11].

9.5 Operational and Revenue Business Models

This section of the study is systematically divided into seven subsections: Digitalization and Economic Growth, Impact of Technology on Banking, Digital Banking Challenges and Opportunities, Volatility and Financial Stability, Sustainability in Banking, Revenue and Profitability, and the Role of Inflation Expectation. Each of these topics is explored in detail in the following sections.

- **Digitalization and Economic Growth:** The banking sector in India plays a crucial role in fostering economic growth, particularly through the adoption of digital technologies (Gupta *et al.*, 2022) ^[11]. Initiatives such as the Digital India Programme and financial inclusion schemes have markedly advanced the digitization of banking services (Gupta *et al.*, 2022) ^[11]. The COVID-19 pandemic has further accentuated the focus on digital banking channels, highlighting the importance of safety and efficiency (Gupta *et al.*, 2022) ^[11].
- **Impact of Technology on Banking:** The integration of artificial intelligence (AI) and machine learning (ML) is transforming banking operations by improving both efficiency and customer experience (B. Singh & Kaunert, 2024) ^[29]. The widespread adoption of mobile and online banking is largely due to the increased use of smartphones and government initiatives that promote cashless transactions (S. Singh & Srivastava, 2020) ^[30].
- **Digital Banking Challenges and Opportunities:** Financial inclusion remains a significant challenge, particularly in rural areas, highlighting the need for improved digital literacy and access (Cnaan *et al.*, 2021) ^[5]. The shift towards a cashless society must carefully consider the potential risks of marginalizing populations that lack adequate digital infrastructure (Cnaan *et al.*, 2021) ^[5].
- **Volatility and Financial Stability:** The Indian banking sector experiences volatility due to regulatory reforms, macroeconomic conditions, and global factors, which subsequently influence its operational strategies (Bhattacharjee & Saha, 2023) ^[3]. A thorough understanding of these volatility factors can facilitate enhanced regulatory planning and contribute to greater market stability (Bhattacharjee & Saha, 2023) ^[3].
- **Sustainability in Banking:** Sustainable banking practices in India are progressing at a measured pace, with public and private sector banks demonstrating differing priorities regarding environmental and social issues (Kumar & Prakash, 2019) ^[18]. There is an

urgent need for more comprehensive initiatives to ensure conformity with international sustainability standards (Kumar & Prakash, 2019) ^[18].

- **Revenue and Profitability:** Big Data Analytics (BDA) is instrumental in enhancing revenue and profitability in the Indian banking sector, despite its current limited application (Srivastava *et al.*, 2017) ^[31]. The adoption of BDA has the potential to improve strategic decision-making and maintain competitive advantage (Srivastava *et al.*, 2017) ^[31].
- **Role of Inflation Expectations:** Inflation expectations significantly impact bank performance, influencing both the return on assets and equity (Maria & Hussain, 2023) ^[19]. The adoption of appropriate macroeconomic policies is crucial for improving bank performance and fostering economic growth (Maria and Hussain, 2023) ^[19].

10. Growth Drivers and Opportunities

The growth drivers and opportunities for Neo Banking in India are comprehensively discussed below.

- **Favourable Demographics:** India's demographic profile, marked by a significant proportion of technologically proficient youth, is particularly favourable for the adoption of digital banking services. This demographic is amenable to technological innovations, thereby facilitating the rapid expansion of neo-banking platforms in India (Indriasari *et al.*, 2022) ^[13].
- **Government Initiatives:** Government initiatives, such as the Digital India program and financial inclusion efforts exemplified by the Jan Dhan Yojana, have been instrumental in the proliferation of digital banking. These initiatives have significantly enhanced account penetration and improved digital literacy among the population (Dwivedi *et al.*, 2021; Gupta *et al.*, 2022) ^[7, 11].
- **Technology Enablement:** Technological advancements, encompassing artificial intelligence, blockchain, and mobile Internet, significantly contribute to the development of the neo banking sector by enhancing operational efficiency, customer experience, and secure transaction processes (Indriasari *et al.*, 2022; Sanyaolu *et al.*, 2024) ^[13, 28].
- **Addressing the SME Credit Gap:** Neobanks address the credit gap faced by small and medium enterprises (SMEs) by offering alternative lending solutions that are more agile than traditional banking models. This approach is essential for empowering SMEs and promoting economic growth (Ololade, 2024) ^[22].
- **Enhanced Customer Experience:** Neobanks prioritize the development of user-friendly digital platforms, which enhance customer satisfaction through features such as personalized services, continuous accessibility, and efficient onboarding processes. These elements collectively contribute to a more engaging and effective banking experience (Indriasari *et al.*, 2022) ^[13].
- **Regulatory Tailwinds:** Regulatory frameworks that are supportive and foster innovation within the financial technology sector, as exemplified by entities such as the Reserve Bank of India, facilitate the growth and sustainability of neo banking services (Hua &

Huang, 2020) ^[12].

- **Technological Enablers:** The application of advanced technologies, including artificial intelligence, machine learning, and big data analytics, is crucial for fostering product innovation and personalizing services in neo banking (Indriasari *et al.*, 2022; Sanyaolu *et al.*, 2024) ^[13, 28].
- **Market Gaps:** Neobanks capitalize on the market deficiencies left by traditional banking institutions, particularly in underserved or rural regions, by utilizing mobile technology and digital platforms to deliver banking services without the necessity for physical branches (Dwivedi *et al.*, 2021; Goswami *et al.*, 2022) ^[7, 10].
- **Changing Consumer Preferences:** Consumers are increasingly prioritizing convenience and flexibility, attributes that digital-only banks offer through seamless online platforms designed to meet the demands of contemporary lifestyles (Kamath *et al.* 2003) ^[15].

The confluence of these drivers and opportunities indicates a favourable trajectory for the expansion and integration of neo banking within India's financial sector. However, it is imperative to navigate the regulatory, technological, and market challenges with precision to ensure sustained success.

11. Challenges, Impediments, and Regulatory Hurdles:

In examining the neo banking sector in India, several challenges, obstacles, and regulatory barriers become evident, as outlined below:

- **The Licensing Conundrum:** Neo-banks in India encounter regulatory challenges, primarily concerning the acquisition of operational licenses. The Reserve Bank of India (RBI) imposes stringent criteria on banking licenses. Although neobanks generally function through partnerships with traditional banks, the absence of a definitive licensing framework for independent digital banks constitutes a significant obstacle.
- **Data Privacy and Security Concerns:** With increasing reliance on digital platforms, safeguarding user data and ensuring privacy have become paramount concerns. Neo-banks must adeptly navigate complex data protection regulations, particularly in light of high-profile data breaches in the fintech sector, which have the potential to undermine customer trust (Bhasin & Rajesh, 2021) ^[2].
- **Regulatory Ambiguity:** The absence of a distinct regulatory framework for neo-banks engenders uncertainty. Existing guidelines predominantly pertain to traditional banking institutions, positioning neo-banks in a regulatory grey area that may result in compliance difficulties and operational impediments (Vijai, 2019) ^[35].
- **Path to Profitability:** Neobanks frequently operate with lower capital reserves than traditional banking institutions. Establishing a profitable business model presents significant challenges, particularly when competing on price within a sector that heavily depends on economies of scale. Intense competition further exacerbates this challenge, as both new entrants

and established banks strive to capture market share.

- **Intense Competition:** The entry of multiple players, including established banks enhancing their digital offerings and fintech companies entering the banking sector, intensifies competition. Neo-banks must distinguish themselves through superior technology or customer experience to achieve a competitive advantage (Kamath *et al.*, 2003) ^[15].
- **Building Customer Trust and Credibility:** Trust is of paramount importance for neo-banks, particularly because they do not possess the long-standing reputation of traditional banks. Establishing credibility in terms of service security and reliability is essential for customer acquisition and retention (Bhasin & Rajesh, 2021) ^[12].
- **Customer Acquisition and Profitability:** As neo-banks broaden their customer base, they must sustain profitability. This task is particularly challenging because of the substantial investments required in marketing and technology to attract and retain customers while simultaneously offering competitive pricing structures (Kumar & Prakash, 2019) ^[18].

In summary, although the neo banking sector in India is experiencing rapid growth, it faces several challenges, including regulatory uncertainty, data security concerns, competition, and issues related to customer trust. Addressing these challenges is crucial for the sustainable development of neobanks and their successful integration into the broader financial ecosystem.

12. Future Outlook and Strategic Implications:

This section of the study is organized into five subsections: Potential Regulatory Evolution, Market Consolidation, Expansion of Product Portfolio, Strategic Expansion, and The Road Ahead. Each of these subsections is examined in detail in the following sections.

12.1 Potential Regulatory Evolution: As the neo-banking sector continues to expand, regulatory frameworks are expected to evolve to address the emerging challenges and complexities inherent in digital banking. Future regulations may focus on data privacy, cybersecurity, and consumer protection, potentially influencing the operational and innovative practices of neobanks.

12.2 Market Consolidation: The Indian neo-banking sector may experience market consolidation as established banks or fintech companies acquire smaller neo-banks to enhance their digital services and expand their customer base. This development could result in a more mature market characterized by fewer yet more robust entities that utilize technology to provide superior financial services.

12.3 Expansion of Product Portfolio: Neo banks are anticipated to broaden their product offerings by incorporating more personalized financial solutions and utilizing advanced data analytics and customer insights. These developments may encompass investment products, insurance, and lending options specifically tailored to meet the diverse needs and demographics of customers (Gupta *et al.*, 2022) ^[11].

12.4 Strategic Expansion: Forming strategic alliances with

fintech companies and other technology providers may be crucial for neo banks to augment their service offerings and improve operational efficiencies. E-collaboration allows neobanks to harness advanced technologies and establish a robust digital ecosystem (Bhasin & Rajesh, 2021) ^[2].

12.5 The Road Ahead: The future trajectory of neo banking in India necessitates navigating a competitive environment while adapting to evolving technological and regulatory landscapes. A sustained emphasis on customer-centric innovation and the implementation of sustainable banking practices is crucial for maintaining relevance and promoting financial inclusion within the diverse Indian market (Asif *et al.*, 2023; Kumar & Prakash, 2018) ^[1, 18].

13. Findings of the Study:

Based on the provided text, the key findings of the study on neo banking in India are as follows:

- Neobanks are fully digital financial platforms that operate without physical branches and offer banking services exclusively through digital channels.
- In India, neobanks do not hold independent banking licenses but operate through partnerships with licensed banks.
- Neobanks play a significant role in enhancing financial inclusion in India, especially for under banked and unbanked populations.
- The rise of neobanks is driven by advancements in digital technologies, widespread smartphone adoption, and government initiatives promoting digital banking.
- Key players in the Indian neo banking sector include Jupiter, Fi Money, Niyo (retail-focused), and Open, Razorpay X, ZikZuk (SME-focused).
- Major growth drivers include favourable demographics, government initiatives, technological enablement, addressing SME credit gaps, and changing consumer preferences.
- Neobanks face challenges such as regulatory uncertainties, data privacy concerns, building customer trust, and achieving profitability.
- The future outlook suggests potential regulatory evolution, market consolidation, expansion of product portfolios, and strategic partnerships in the field.
- Neobanks are transforming the Indian banking landscape by offering innovative, customer-centric solutions that leverage technology.
- However, neobanks need to address regulatory, security, and integration challenges for sustainable growth in India.

14. Conclusion:

Neobanks are fully digital financial platforms that operate without physical branches and provide banking services exclusively through digital channels. In India, these entities typically collaborate with licensed banks rather than possessing independent banking licenses. Neobanks play a crucial role in enhancing financial inclusion, particularly for under banked and unbanked populations, as their digital-first model enables them to reach customers in remote areas. The rise of neo banking is driven by technological advancements, widespread smartphone adoption, supportive government initiatives, and changing consumer preferences favouring digital services. Key players in the Indian neo

banking sector include retail-focused platforms such as Jupiter, Fi Money, and Niyo, as well as SME-focused platforms such as Open, Razorpay X, and ZikZuk. Neobanks offer advantages such as lower costs, personalized services, faster account opening, and user-friendly interfaces compared to traditional banks, leveraging technologies like AI, machine learning, and data analytics. Major challenges faced by neobanks include regulatory uncertainty, data privacy and security concerns, building customer trust, and achieving profitability, with the lack of a clear licensing framework being a key regulatory hurdle. The COVID-19 pandemic accelerated the shift towards digital banking, benefiting neobanks; however, issues surrounding financial literacy and digital access in rural areas persist. The future outlook suggests potential regulatory evolution, market consolidation, expansion of product portfolios, and strategic partnerships between neobanks and other fintech/technology providers. The sustainable growth of neo banking will require navigating the competitive landscape, adapting to evolving regulations, focusing on customer-centric innovation, and promoting financial inclusion. Overall, neo banking represents a significant transformation of India's banking sector, driven by digital innovation and aimed at enhancing customer experience and financial inclusion. Nonetheless, ongoing efforts are necessary to address the existing gaps and challenges.

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