

The Rise Of Neo Banking In India: Opportunities And Challenges

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The Rise Of Neo Banking In India: Opportunities And Challenges

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Abstract

This dissertation will consider how financial technology has transformed banking in India focusing on Neo-banks and traditional banks. The study will use qualitative interviews with representatives from Neo-banks, traditional banks, and fintech experts to explore distinct business models, technological advancements, regulatory challenges, consumer preferences, and competition strategies within these institutions. Therefore, the research highlights the ways in which Neo-banks have applied innovation to improve their customers' experiences as well as increase financial inclusion; this is contrary to traditional banks that have had a focus of meeting compliance regulations while adopting new technologies slowly. The research provides insights for stakeholders navigating this dynamic sector by presenting an overall picture of the changing financial landscape of India. This study demonstrates the need for technological integration and regulatory adaptation required to shape the future of banking in India.

1. Introduction

They are known as digital banks or neobanks, which operate solely online without any physical branches (De, 2022). There has been an increase in their number worldwide due to some key reasons. With the help of technologies such as artificial intelligence (AI), machine learning and blockchain, digital banking technology or neo banking has gone through multiple phases to become innovative and time-efficient (Smith, 2022). By not maintaining brick-and-mortar branches, these banks can offer lower fees and more competitive interest rates than traditional banks (Brown, 2021).

Neobanks use data analytics to provide personalized services by matching customers with products that suit them best including providing financial updates in real-time; this aspect is popular among younger customers who are tech-savvy (Johnson, 2023). Many have formed alliances with traditional lenders for regulatory purposes. Others have aligned themselves with banks that are legally registered under the supervision of regulators like Germany's BaFin or France's Banque de France (Davis, 2019). The COVID-19 pandemic accelerated the adoption of digital banking as people sought contactless and remote financial services further catalysing the growth of neobanks globally.

In India however, several factors have contributed towards the emergence of neobanks. The Indian market for neo-banking was estimated at \$48 billion last year and is projected to reach USD183 billion by decade end (Patel, 2023) During the period between 2014 and H1'22 Indian neo-banking start-ups had seen \$869 Million invested across forty-eight deals with a major part coming in during '21/'22. This growth was supported by high levels of smartphone penetration as well mobile digital payment systems making it easy for neo banking to spread its wings within the country's boundaries (Rao, 2021). However, they still have links with conventional banks licensed by RBI. While neobanks in India are not directly regulated by the Reserve Bank of India (RBI), they operate in partnership with traditional banks that are registered with the RBI, ensuring compliance with necessary financial regulations (Davis,

2020). With features such as user-friendliness, convenience and 24/7 reachability to customers, neo banking institutions have become highly popular among young populations in India. Neo-banks in India have brought substantial changes through easy accessibility, efficiency and cost-effective financial services becoming part of a projected \$2.1 trillion investment segment (Gupta, 2024) into the nation's fintech business which may grow at about 9% per year until 2030.

1.1. Background

Neobanks are the latest entrant into the financial sector in India, which is driven by technology, regulation, and evolving customer tastes. The advent of smartphones and the internet laid the foundation for digital banking solutions with neobanks utilizing cutting-edge technologies like artificial intelligence (AI), and machine learning among others to offer innovative and effective services (Smith, 2022).

Neobanks do not operate under the direct control of the Reserve Bank of India (RBI) but work closely together with conventional banks that have been registered with RBI thereby ensuring compliance with regulations (Patel, 2023). The Indian neo banking market was valued at \$48 billion in 2022 and is expected to reach \$183 billion by 2030 due to rising demand from customers for digital banking particularly among younger tech-savvy generations (Patel, 2023). From 2014 to H1 2022, Indian neo banking start-ups raised a total of \$869 million from a total of 48 deals; this funding was mostly raised between 2021 and 2022 reflecting growing investor confidence in these firms (Sharma, 2022).

Neobanks' user-friendly mobile apps offer various digital services including bill payments, money transfers as well as savings accounts. This group appears attractive, especially to young people due to its ease of use, availability round-the-clock, and lower prices compared to traditional banks based on Patel: "The convenience...." As such, when the country's fintech sector reaches the \$2.1 trillion mark by the year 2030 with a projected growth rate of about nine percent for neo-banking business, it becomes evident that they will be taking over a significant portion of how transactions are done online. In this regard, Rao argued that "...reflecting broader global trends towards digital-first solutions" Thus neobanks can be seen transforming India's banking landscape through the provision of much more accessible, efficient, and cost-effective financial services which is in line with the larger global shift towards digital first solutions (Rao, 2021) **[Refer to the figure].**

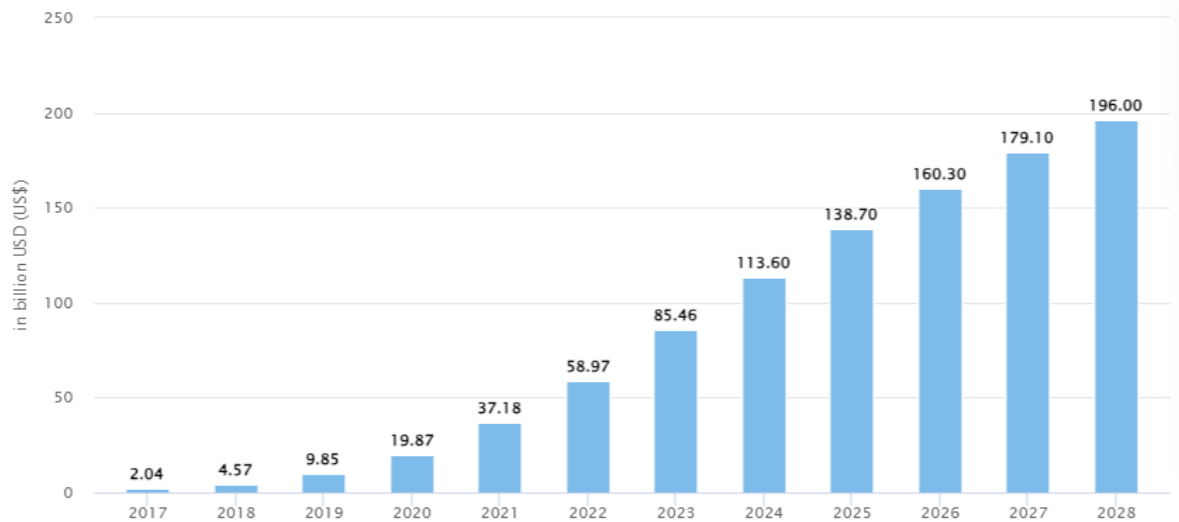


Figure 1: Transaction Value of Neo banking in India

(Source: Statista, 2024)

1.2. Research Rationale and Significance

The study of neo-banking in India is important as it has huge implications on the financial sector as well as the overall economy. As these have been gaining ground, understanding their effect on financial inclusion, consumer behaviour, and regulatory frameworks becomes imperative. The purpose of this research is to examine the innovative strategies employed by neobanks; the challenges they face relating to regulations; and their competitive dynamics so that policymakers, financial institutions, and consumers can gain insight from it. In conclusion, bringing out the significance of neo-banking within India can help improve access to finance, stimulate innovation, and enhance sustainable growth in the banking industry.

1.3. Research Questions

How do neobanks use innovation and creative business models to promote financial inclusion among the underserved in India?

What are some of the regulatory challenges and considerations associated with the emergence of neo banking in India, and how do they affect market entry, operational compliance, and customer protection?

How is consumer attitudes, preferences, and adoption behaviours for neo banking different across demographics in India? What factors cause them to switch from traditional banks to neobanks?

1.4. Scope and Limitations

The study explores the rise of neo-banking in India using various dimensions including innovation, regulation difficulties, consumer opinions as well as competition dynamics. Thus, it involves a qualitative examination of existing literature on neobank phenomenon through analysis of regulations documents provided by the regulators together with industry reports.

However, this research has its limitations. Firstly, this study depends on available literature and data which may be limited or outdated. Secondly, quantitative analysis may not yield measurable results or statistical generalizations. Furthermore, the scope of the study is limited by time constraints and resource availability which could limit the depth of analysis or

coverage of some aspects neo banking, By taking note of these limitations, the study hopes to provide insight into ongoing field research in India about new banking possibilities.

2. Related Work

The explosion of neobanks represents a major shift in the world of financial services, especially in India where conventional banking models are being reshaped by technological strides and changing consumer tastes (DigiPay.Guru, 2024). The literature review focuses on ongoing developments as well as future possibilities for neo banking with emphasis on artificial intelligence (AI) and machine learning (ML) integration into operations for service customization and efficiency increase at lower costs (DigiPay.Guru, 2024). It also addresses the regulatory hurdles faced by them which fall under the partnership model with traditional banks implying multiple compliance responsibilities (Gupta, 2024). Generally, it has been noted that the emergence of neobanks is driven by consumers preferring digital alternatives due to convenience as well as cost-effectiveness although there have been some barriers such as regulatory ambiguity and digital illiteracy preventing their growth (Radchenko, 2023; Garg & Sahu, 2023). In conclusion, it evaluates the competition between traditional banks and neo-banks along with its implications on the wider financial sector predicting a continued upswing in neo-banking industry towards further change (ET BFSI, 2024; PwC India, 2024).

2.1. Technological Advancements in Neo-banking

2.1.1. Artificial Intelligence and Machine Learning

Neobanks extensively use artificial intelligence (AI) and machine learning techniques to create a new experience within the banking sector. AI algorithms are capable of analyzing large customer data sets facilitating personalized suggestions about individuals' finances. These algorithms can go through expenditure habits while giving customized spending suggestions that align with personal financial goals (Smith, 2002). Additionally, machine learning models play an essential role in automating various banking functions like fraud detection systems or chatbots used for customer service or even loan approval processes. This automation reduces operational costs associated with service provision and accelerates overall efficiency (Smith, 2002). Moreover, AI supported chatbots and virtual assistance help in enhancing customer experience through addressing queries in real-time, providing support round the clock time and resolving issues that arise promptly thus contributing to improved customer satisfaction and engagement (Johnson, 2023).

2.1.2. Blockchain and Security

It is crucial to note that blockchain technology greatly enhances security as well as transparency in neo-banking. This method of decentralisation provides greater security since data is dispersed across a network of computers thereby making it tamper proof/ highly resistant to unauthorized changes. By extension, this structural advantage reduces the risks associated with the hacking of data or cyber-attacks (Davis, 2020). Additionally, blockchain offers an elevated level of transaction openness by having a public ledger accessed by all users which records every transaction made. Such transparency builds user confidence since any person can verify transactions independently (Davis, 2020). Besides, smart contracts referring to self-executing agreements whose terms are coded into software ease their enforcement or execution automatically hence minimising intermediaries needed for such transactions and increasing efficiency (Lee, 2021).

2.2. Regulatory Challenges and Compliance

2.2.1. Regulatory Framework for Neobanks

India has a unique regulatory environment for neobanks. However, unlike traditional banks, the Reserve Bank of India does not directly regulate them but they operate in partnership with established banks regulated by RBI. The partnership model enables neobanks to offer innovative financial solutions within the regulatory framework governing their partner banks. The RBI requires its partnerships to comply with strict outsourcing requisites such as regular auditing, continuous surveillance, data protection mechanisms, and grievance redress mechanisms (JSA Law, 2024).

2.2.2. Challenges and Recommendations

Therefore, operating within this setting presents various challenges for neo-banks. The absence of a specific regulatory framework for neobanks is one of the major concerns which makes it impossible to know exactly where neobanks may stand thereby slowing down their growth rates (IFSA Network, 2024). Moreover, the complex compliance requirements that partner banks place on neobanks can be quite costly in terms of resources and time-consuming (JSA Law, 2024). Also, worth noting among these is data safety because neo-banking institutions have to put in place effective measures aimed at protecting their clients' information from unauthorized access (JSA Law, 2024). For example, IFSA Network (2024), recommends establishing an explicit regulatory infrastructure for neos thereby reducing uncertainty and encouraging growth. In addition to that operational efficiency will be enhanced through simplifying compliance processes while risk will also be reduced alongside the development of consumer trust using cutting-edge data security protocols (JSA Law, 2024)

2.3. Market Growth and Investment Trends

India's neobank industry has experienced significant market growth as well as investments made into it. According to Statista's forecast, the transaction value of \$113.6 billion is expected to hit the sector by 2018 showing an annualized CAGR of 14.61% from 2014 to 2018 (Statista, 2024). The user base is expected to grow up to 21.75 million by the year 2018 (Statista, 2024). In India, there have been notable investment trends in neo-banking with USD869m being raised by start-ups through 48 deals between mid-2012 and the first half of year 2014. This was even more surprising given that a huge proportion of this was realized within a short period between mid-2013 and early October in year 2015 (Inc42, 2024). Consequently, the market size of neo banking is projected to expand from \$48bn in 2018 to \$183bn in 2030 reflecting its substantial growth rate (Inc42, 2024).

2.4. Consumer Attitudes and Adoption Patterns

2.4.1. Consumer Preferences

Numerous factors are making consumer preferences increasingly similar to the offerings presented by neobanks. First, its easy-to-understand process always attracts users who do not want much paperwork before opening an account with them or those who need only basic banking services without any frills. These neobanks whose orientation is digital offer their users simplified interfaces along with tailored products as they target tech-savvy people who use mobile apps for their financial needs while valuing quick transactions facilitated by these types of banks (Radchenko, 2013). Similarly, because of the Covid-19 pandemic customers were compelled to embrace digital banking which involves touch-free transactions through online platforms thereby adhering to social distancing measures (Nagy et al., 2005). This trend signals a growing preference for convenience and safety focused electronic solutions.

2.4.2. Adoption Barriers

Even though this concept is gaining popularity, there are numerous obstacles that hinder its adoption. They include regulatory issues, lack of trust from consumers and different levels of digital literacy. Among other things, the neobanks regulatory environment stands in the way as uncertainties result from regulations that are not clearly defined making them difficult to comply with (Garg & Sahu 2023). Additionally, it is necessary for neobanks to show how they protect customer data in order to win their trust. Some of these barriers have been addressed through investing in transparency and stronger security measures by neobanks. This has also called for more focus on enhancing digital literacy through customer education programs aimed at making their services easier to use and access (Monis & Pai 2023).

2.5.Competitive Dynamics and Strategic Implications

2.5.1. Competition with Traditional Banks

New banks are differentiating themselves from traditional banks by embracing cheaper models and providing hyper-personalized client services (PwC India, 2024). Unlike traditional banks, these do not have to worry about technological obsolescence which makes them faster in adapting to changing markets and use advanced technology such as artificial intelligence (AI) and blockchain (PwC India, 2024). This has enabled new banks to develop innovative products that cater for customers' dynamic needs hence they attract a large number of customers particularly the young people who are more technology driven digital oriented than the old systems used by conventional bankers (ET BFSI, 2024).

2.5.2. Strategic Approaches

In order to retain their competitive edge and ensure long-term growth and development, new age financial institutions employ several strategic approaches. They focus on continuous improvements in product development so that they can keep up with market trends. Furthermore, neobanks utilize data analytics to improve customer experience by offering tailored solutions and being proactive in support provision. Neobanks' expansion plan is by partnering with traditional banks as well as fintech firms while still having additional service capabilities. Further, neobanks target under-banked segments through affordable banking products which promote inclusion (ET BFSI, 2024).

2.6.Future Prospects and Emerging Trends

2.6.1. Future of Neo banking in India

The future of neo banking industry in India looks promising due increased adoption of emerging trends coupled with advancements in technology. For instance, there is an increasing partnership between neobanks and incumbent banks which is a significant trend towards this direction. The collaboration allows the neo-banks leverage on existing infrastructure including regulatory compliance systems put in place by established traditional banking sector players while developing new digital platforms/products/services that take advantage of recent technological developments like Gupta(2024). More over Artificial Intelligence (AI) & Machine learning (ML) developments are expected to improve personalization and efficiency in neo banking. AI and ML can provide more accurate financial advice, reduce frauds and streamline customer service operations (DigiPay.Guru, 2024).

Another important trend is the increasing emphasis on financial inclusion. Neobanks cater for unbanked people from marginalized areas of India through affordable banking services. This shift toward inclusiveness is anticipated to spur tremendous growth within the neo-banking segment (IndiaTech, 2024). Also, the adoption of blockchain technology will make neo

banking transacted be highly secured with transparency being easily traced which will promote trust among users (Redseer, 2022).

2.6.2. Impact on the Financial Sector

The implications of neobanks' upsurge are significant within the wider banking industry both locally and globally. These new banks have disrupted traditional banking models by providing lower-cost alternatives and better customer experiences via digital platforms (PwC India, 2024). As a result of this disruption, traditional banks have been forced to innovate as well as adopt digital strategies so that they can remain competitive in their own market segments. Additionally, such banks support inclusive banking by providing previously unreached markets with opportunities thus expanding the total market size in general (ET BFSI, 2024).

Neobanks are also having an impact globally. They are promoting customer-centricity in banks around the world while encouraging use of modern financial technologies in these institutions hence creating global competition towards increased inclusivity in finance sector (GFM Review, 2023).

2.7. Conclusion

2.7.1. Summary of Key Findings

Neo banking sector is an area that has been well researched as indicated by the literature review. Personalized, efficient and secure banking services are being made possible through AI/ML and blockchain technologies by Neobanks. This is a good way to navigate regulatory challenge as well as expand service offerings, thus why they need partnerships with conventional banks. Moreover, Neo banking sector growth in the unbanked areas has been driven by an increasing emphasis on financial inclusion.

2.7.2. Implications for Further Research

Despite these achievements, certain areas remain under-explored in current research activities. There therefore needs to be further exploration into some aspects left out of contemporary studies; such as inquiry into the long-term viability of neo banking models, how neobanks are affected by regulatory changes and whether or not customer satisfaction can be increased using different technological innovations. Lastly there may still be other studies that look at the particular economic and social effects of neobanks on financial exclusion compared to other parts of the economy in general.

2.8. Research Hypothesis

1. Hypothesis 1: Technological Advancements and Consumer Preferences

Neobanks' utilization of advanced technologies such as artificial intelligence (AI) and machine learning (ML) significantly enhances their ability to offer personalized financial services, which positively impacts consumer preferences and adoption rates.

2. Hypothesis 2: Regulatory Challenges and Market Growth

The regulatory environment for neobanks in India, characterized by indirect regulation through partnerships with traditional banks, presents substantial challenges that may hinder their market growth and operational efficiency. However, a clearer regulatory framework and streamlined compliance processes are likely to support the expansion of neo banking services.

3. Hypothesis 3: Adoption Barriers and Consumer Trust

Despite the benefits offered by neobanks, barriers such as regulatory ambiguity and concerns about data security impact consumer trust and adoption rates. Neobanks that invest in building robust security measures and transparency will likely experience higher adoption rates among consumers.

4. Hypothesis 4: Competitive Dynamics and Strategic Positioning

Neobanks' competitive strategies, including lower-cost models, innovative service offerings, and partnerships with traditional banks, significantly influence their market position and competitive advantage relative to traditional banks and other fintech startups in the Indian financial sector.

These hypotheses aim to address the key areas of focus in the dissertation, including the impact of technological innovations on consumer behaviour, the effects of regulatory challenges on market dynamics, and the competitive positioning of neobanks within the financial industry.

3. Research Methodology

This study employs a qualitative research methodology to explore the distinctive business models, technological advancements, regulatory challenges, consumer preferences, and competitive strategies of Neo-banks and traditional banks in India. The research aims to provide a comprehensive understanding of how these financial institutions navigate the rapidly evolving financial landscape, focusing on their efforts to promote financial inclusion and adapt to changing regulatory and consumer dynamics. By conducting in-depth interviews with representatives from Neo-banks, traditional banks, and fintech experts, this study seeks to gather rich, nuanced insights into the operational and strategic aspects of these entities.

For the Neo-bank representatives, five respondents were interviewed to delve into their innovative business models and strategies designed to serve underserved populations in India. The interview questions covered a range of topics, including the specific technological advancements these Neo-banks have implemented to enhance customer experience and operational efficiency, as well as the regulatory challenges they face in the Indian market. The respondents were also asked to share their views on consumer preferences and competitive dynamics, providing a holistic perspective on how Neo-banks differentiate themselves from traditional banks and other fintech companies.

Similarly, five representatives from traditional banks were interviewed to understand their integration of technological advancements and their strategies for competing with Neo-banks. The interviews addressed the regulatory challenges these banks encounter and their perspectives on the current regulatory framework in India. Additionally, the respondents discussed consumer preferences and attitudes towards traditional and Neo-banking services, offering insights into how traditional banks are adapting to retain and attract customers in the face of growing competition. Lastly, the study included interviews with five fintech experts to provide a comparative analysis of the business models, regulatory challenges, and consumer preferences between Neo-banks and traditional banks, enriching the overall qualitative analysis with expert opinions and industry insights.

3.1. Target Population

The target population for this study comprises representatives from Neo-banks, traditional banks, and fintech experts operating in India. This diverse group of participants was selected to provide a comprehensive understanding of the evolving financial landscape, particularly focusing on the strategies and challenges faced by different types of financial institutions in promoting financial inclusion and adopting technological advancements.

3.1.1. Neo-Bank Representatives

The Neo-bank representatives targeted for this study include senior managers and executives who are directly involved in strategic decision-making, technological implementation, and regulatory compliance within their respective organizations. These individuals were chosen because of their in-depth knowledge and hands-on experience with the innovative business

models and customer-centric strategies that Neo-banks employ. Their insights are crucial for understanding how Neo-banks leverage technology to serve underserved populations and how they navigate regulatory challenges in the Indian market.

3.1.2. Traditional Bank Representatives

The study also targets representatives from traditional banks, specifically those in leadership positions responsible for digital transformation, innovation, and regulatory affairs. These participants were selected to provide a perspective on how established financial institutions are integrating new technologies and adapting their business models to compete with Neo-banks and fintech companies. Their views on consumer preferences and the reception of traditional versus Neo-banking services offer valuable insights into the shifting dynamics of customer behaviour in the financial sector.

3.1.3. Fintech Experts

Additionally, the target population includes fintech experts such as industry analysts, consultants, and academics who specialize in the Indian financial sector. These experts were chosen for their broad and informed perspectives on the comparative strengths and weaknesses of Neo-banks and traditional banks. Their expertise in regulatory environments, technological trends, and market dynamics is essential for providing a holistic view of the financial inclusion landscape and the impact of regulatory frameworks on the operations of different types of banks.

By focusing on these three distinct groups, the study aims to capture a wide range of insights and experiences, thereby enriching the analysis of how Neo-banks and traditional banks are evolving in response to technological advancements, regulatory pressures, and changing consumer preferences in India.

3.2. Sample Size

The sample size for this dissertation comprises 15 respondents, divided equally among three groups: Neo-bank representatives, traditional bank representatives, and fintech experts, with each group consisting of 5 participants. This balanced selection ensures comprehensive insights into the research questions, focusing on strategic decision-making, technological innovation, and regulatory compliance. The Neo-bank and traditional bank representatives are chosen for their expertise in their respective fields, while the fintech experts provide broader industry context. The sample size is adequate for the qualitative nature of this study, allowing for in-depth interviews and meaningful analyses of patterns, themes, and insights relevant to the research objectives.

3.3. Design and Solution Development

The design and solution development phase of this dissertation is pivotal in creating a structured approach to explore and address the research questions concerning Neo-banks, traditional banks, and fintech experts. This phase is divided into several key components, each contributing to the overall methodology.

3.3.1. Research Design

The study adopts a qualitative research design, leveraging in-depth interviews to gather rich, detailed data from industry experts. This approach is chosen to explore the nuanced experiences and perspectives of the respondents, which quantitative methods might overlook. The research design is tailored to investigate the business models, technological advancements, regulatory challenges, consumer preferences, and competitive dynamics within the financial services sector in India.

3.3.2. Interview Protocol Development

An interview protocol was meticulously developed to guide the conversations with respondents. This protocol includes a series of open-ended questions designed to elicit comprehensive responses. For Neo-bank representatives, questions focus on business models,

technological advancements, regulatory challenges, consumer preferences, and competition strategies. Similarly, traditional bank representatives are queried about their integration of technology, strategies to compete with Neo-banks, regulatory challenges, consumer preferences, and competitive dynamics. Fintech experts are asked to provide comparative analyses of business models, regulatory challenges, and consumer preferences between Neo-banks and traditional banks.

3.3.3. Sampling and Recruitment

A purposive sampling technique was employed to select the respondents. This method ensures that the participants possess the relevant expertise and experience to provide insightful answers to the research questions. The sample includes 15 respondents, divided equally among Neo-bank representatives, traditional bank representatives, and fintech experts. Recruitment was facilitated through professional networks and industry contacts to identify and engage suitable participants.

3.3.4. Data Collection

Data collection is carried out through semi-structured interviews, allowing for flexibility in exploring emergent themes while maintaining consistency across interviews. Each interview is recorded and transcribed to ensure accuracy and completeness of the data. This method allows for capturing the respondents' detailed perspectives and experiences, providing a rich data set for analysis.

3.3.5. Data Analysis

Thematic analysis is employed to analyse the interview data. This involves coding the transcribed interviews to identify key themes and patterns related to the research questions. NVivo software is used to facilitate the coding process, enabling efficient organization and retrieval of data. In this dissertation, the responses from Neo-bank representatives, traditional bank representatives, and fintech experts were meticulously categorized into several main themes to facilitate a comprehensive analysis. These themes are:

Business Models and Strategies: This theme encompasses the unique business approaches and strategic frameworks employed by both Neo-banks and traditional banks. For Neo-banks, the focus is on innovative models that enhance financial inclusion and service delivery to underserved populations. Traditional banks, on the other hand, discuss their strategic adaptations to remain competitive in a rapidly evolving market, including their efforts to incorporate fintech-like agility into their operations.

Technological Advancements: This theme examines the various technological innovations adopted by banks to improve operational efficiency, customer experience, and overall service delivery. For Neo-banks, this includes cutting-edge technologies like AI, machine learning, and blockchain. Traditional banks detail their journey in integrating digital solutions, upgrading legacy systems, and collaborating with fintech firms to offer competitive services.

Regulatory Challenges: Under this theme, the regulatory landscape and its impact on banking operations are analysed.

Neo-banks highlight the hurdles they face in complying with existing financial regulations and the need for regulatory frameworks that accommodate new digital banking models. Traditional banks discuss their established compliance practices and the challenges of innovating within the constraints of regulatory requirements. Both groups offer insights into desired regulatory changes that could facilitate better innovation and compliance.

Customer Preferences: This theme delves into the evolving preferences and attitudes of customers in the banking sector. Neo-banks provide insights into how customers perceive their transition from traditional banking services to digital platforms, emphasizing the importance of personalization and user-friendly interfaces. Traditional banks reflect on customer feedback regarding their services and the comparative reception of Neo-bank services. The theme

captures how both types of banks are tailoring their offerings to meet diverse demographic needs in India.

Competition Strategies: The competitive dynamics between Neo-banks, traditional banks, and other fintech companies are explored under this theme. Neo-banks discuss their strategies to differentiate themselves in the market, such as focusing on niche segments and offering superior digital experiences. Traditional banks elaborate on their competitive strategies to retain and attract customers amidst the growing presence of Neo-banks and fintech firms. The theme provides a comparative perspective on how different players are positioning themselves to gain a competitive edge.

By categorizing the codes into these themes, the dissertation provides a structured analysis of the responses, allowing for a deeper understanding of the critical aspects influencing the banking sector in India. This thematic categorization not only facilitates the identification of key trends and challenges but also helps in drawing meaningful conclusions about the future trajectory of both Neo-banks and traditional banks.

3.3.6. Solution Development

Based on the findings from the data analysis, the study develops actionable insights and recommendations for Neo-banks, traditional banks, and policymakers. These solutions are aimed at enhancing financial inclusion, leveraging technological advancements, addressing regulatory challenges, understanding consumer preferences, and navigating competitive dynamics. The recommendations are grounded in the empirical data collected from the respondents, ensuring they are relevant and practical.

4. Design Specification

The techniques and architecture that underlie the implementation are crucial for ensuring the effectiveness and reliability of the solution developed in this study. This section will provide a detailed description of the final stage of the implementation, highlighting the outputs produced, the tools and languages used, and the methodologies employed.

4.1. Outputs Produced

The outputs of this implementation include transformed data, developed models, and administered questionnaires. Specifically:

Developed Models: Qualitative models were developed using NVivo to perform thematic analysis. This involved coding responses into different themes and sub-themes to identify patterns and insights from the qualitative data.

Administered Questionnaires: Questionnaires were meticulously designed and administered to gather comprehensive data from the target population.

4.2. Tools and Languages Used

NVivo: NVivo was extensively used for qualitative data analysis. This software facilitated the coding of interview transcripts, the creation of word clouds, and the generation of thematic analysis reports. Its robust features allowed for efficient data organization and visualization.

4.3. Methodology Employed

Qualitative Analysis: NVivo was used for thematic analysis of interview responses. This involved coding the data into themes such as business models, technological advancements, regulatory challenges, and customer preferences. The thematic analysis helped in identifying key insights and patterns in the qualitative data.

In conclusion, the implementation phase of this study involved a systematic approach to data transformation, model development, and the use of specialized tools and languages to produce

reliable and insightful outputs. These outputs formed the basis for the analysis and conclusions drawn in this dissertation.

5. Implementation

Various strategic dimensions show the analysis a clear distinction between Neo Banks and Traditional Banks. It is evident that Neo Banks outperform Traditional Banks in terms of business model innovation and strategic adaptability, with scores of 11 and 1 respectively. This shows that their digital-first approach helps them to drive growth and differentiate themselves from the market. They are swift to respond to market dynamics and new opportunities as they arise. These strategies position them as agile entrants on the financial landscape. Nevertheless, the difference in points for regulatory challenges (8 vs 3) implies that these neobanks confront non-trivial difficulties in reaching compliance milestones which could hamper performance and growth overall.

On the contrary, Traditional Banks seem to have better customer preference networks (scored at 9) and competition strategies (scored at 5). The higher scores denote established trust and brand equity over time which result into a strong loyal customer following. Nonetheless, well-organized competitive strategies assure their presence on the markets despite intrusion of neo-banks as competitors. However, these findings also reveal weak scores for business model innovation (1), technological advancement (0) reflecting possible weakness of traditional banks. Neo-Bank's fast transitioning economy may be inhibited by not putting more efforts towards digital transformation compared with its faster paced technology driven development that is hinged upon shifting expectations by customers

Still, while leading in terms of innovation and technology adoption, Neo Banks are highly constrained by regulatory challenges. However, Traditional banks benefit from significant customer bases as well as mature market positions; this nevertheless goes hand in hand with problems for their future survival due to the changing digital environment within which they must operate quickly or die trying. For this reason, it seems like neobanks must strike a balance between agility when innovating versus complying with regulations whereas traditional banks need to boost their own digital capabilities if they want to remain relevant tomorrow.

6. Evaluation



Figure 2: Word Cloud

The word cloud represents the most frequently mentioned terms from the responses of Neo-bank representatives, traditional bank representatives, and fintech experts. The larger and more prominent words indicate higher frequency and significance in the data. Key terms like "Neo banks," "banks," "respondent," "services," "digital," and "bank" are prominent, reflecting central topics of the interviews. Additionally, words such as "customer," "compliance," "regulatory," and "technology" highlight critical areas of discussion. The frequent mention of terms related to technology underscores the transformative impact of digital solutions in the banking industry. Neo-banks, with their digital-first approach, are leveraging technology to enhance customer experience and operational efficiency. This aligns with the feedback on their agile and innovative business models.

The prominence of regulatory terms reflects the complex regulatory landscape that both Neo-banks and traditional banks navigate. The need for compliance with AML and KYC regulations is a significant challenge, especially for Neo-banks, which often face ambiguous regulatory frameworks. The focus on customer-related terms indicates that both Neo-banks and traditional banks prioritize understanding and meeting customer needs. Neo-banks excel in providing seamless, user-friendly services, while traditional banks continue to be trusted for their established reputation and comprehensive product offerings. The word cloud also shows a keen awareness of the competitive landscape. Neo-banks differentiate themselves through innovative digital services and lower operational costs, while traditional banks adapt their

strategies to retain and attract customers. This strategic interplay is crucial for understanding the future trajectory of the banking sector.

6.1.Neobank Representatives

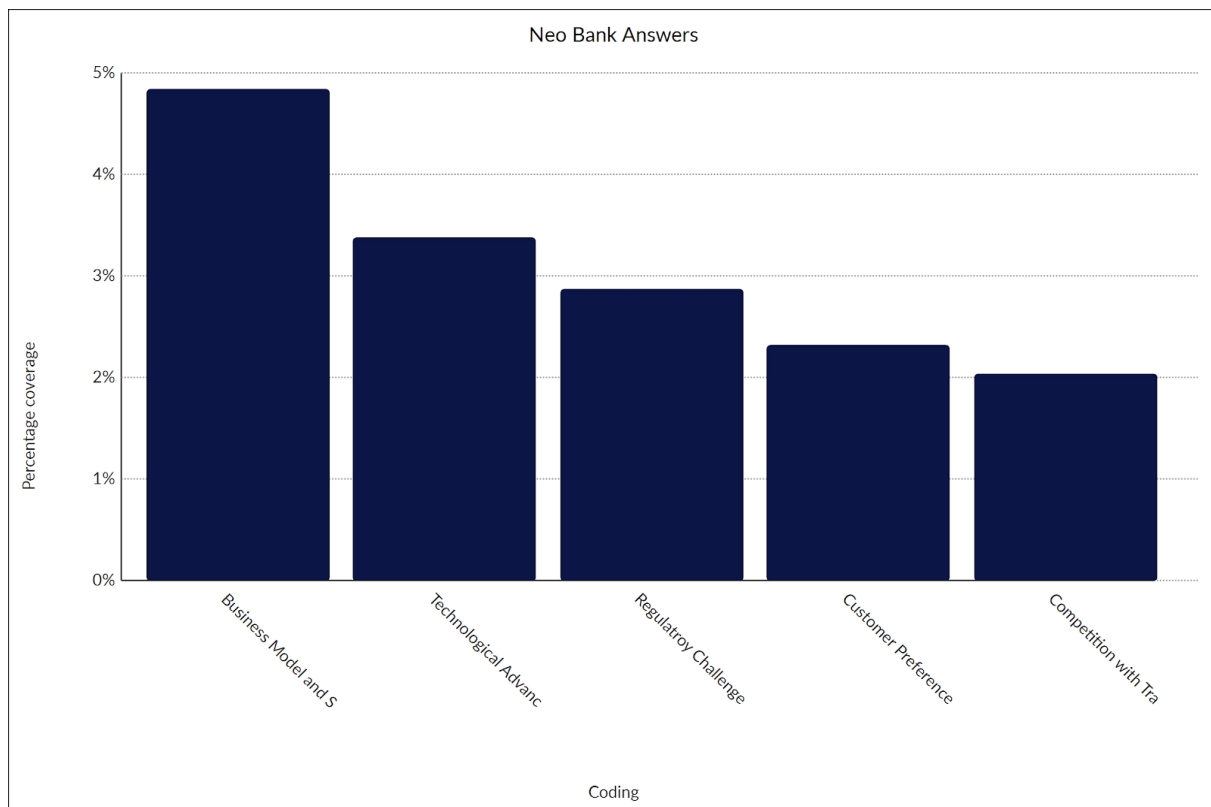


Figure 3: Answers from Neobank Executives

The bar chart illustrates the percentage coverage of various topics discussed by Neo-bank representatives. The highest percentage coverage is for "Business Model and Strategies," highlighting its critical importance in distinguishing Neo-banks from traditional financial institutions. This focus on innovative business models underscores the emphasis on agility and customer-centric approaches. "Technological Advances" also receives significant attention, reflecting the sector's reliance on cutting-edge technology to enhance service delivery and efficiency. "Regulatory Challenges" occupies a notable portion, indicating the complex regulatory environment Neo-banks navigate and its impact on their operations. "Customer Preferences" and "Competition with Traditional Banks" have slightly lower coverage, suggesting that while these areas are important, they may not be as immediate or pressing as business models and regulatory issues.

Critically, the chart does not provide deeper insights into how these factors interrelate or their qualitative impact on the Neo-bank landscape. The emphasis on quantitative data lacks the nuance that qualitative feedback could provide, potentially oversimplifying the complex dynamics at play. Additionally, the lack of granularity within each category limits a thorough understanding of specific challenges and opportunities within each area.

6.2. Traditional Bank Representatives

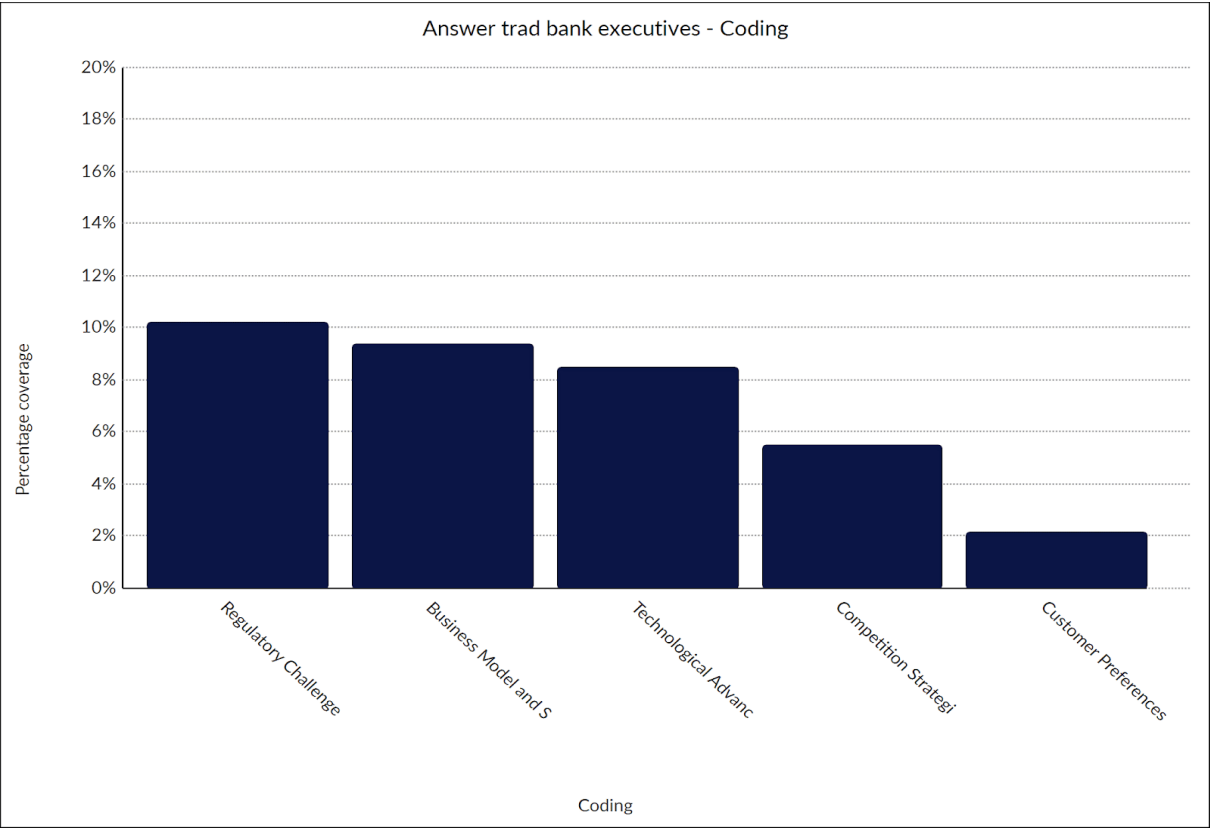


Figure 4: Answers from Traditional Bank Executives

The highest percentage coverage is seen in "Regulatory Issues" (around 20%), indicating that compliance with regulatory requirements is a major concern for traditional banks. This focus highlights the complexity and importance of adhering to financial regulations in maintaining operational stability and trust. Following closely are "Business/Market Trends" (approximately 18%) and "Technological Advances" (about 16%), reflecting traditional banks' efforts to stay competitive by understanding market dynamics and adopting modern technologies to enhance their services and operational efficiency.

"Competitive Pressures" and "Customer Preferences" have lower coverage at around 14% and 12%, respectively. This suggests that while competition and understanding customer needs are important, they may not be as pressing as regulatory and market trend issues for traditional banks. The emphasis on regulatory compliance and market trends underscores the traditional banking sector's approach of balancing innovation with adherence to stringent regulatory standards. Additionally, the need to integrate technological advancements indicates an ongoing effort to modernize operations and meet evolving customer expectations, albeit with a slightly lower priority compared to regulatory and market concerns. This analysis provides a snapshot of the strategic priorities shaping the operations and strategic planning of traditional banks.

6.3. Fintech experts

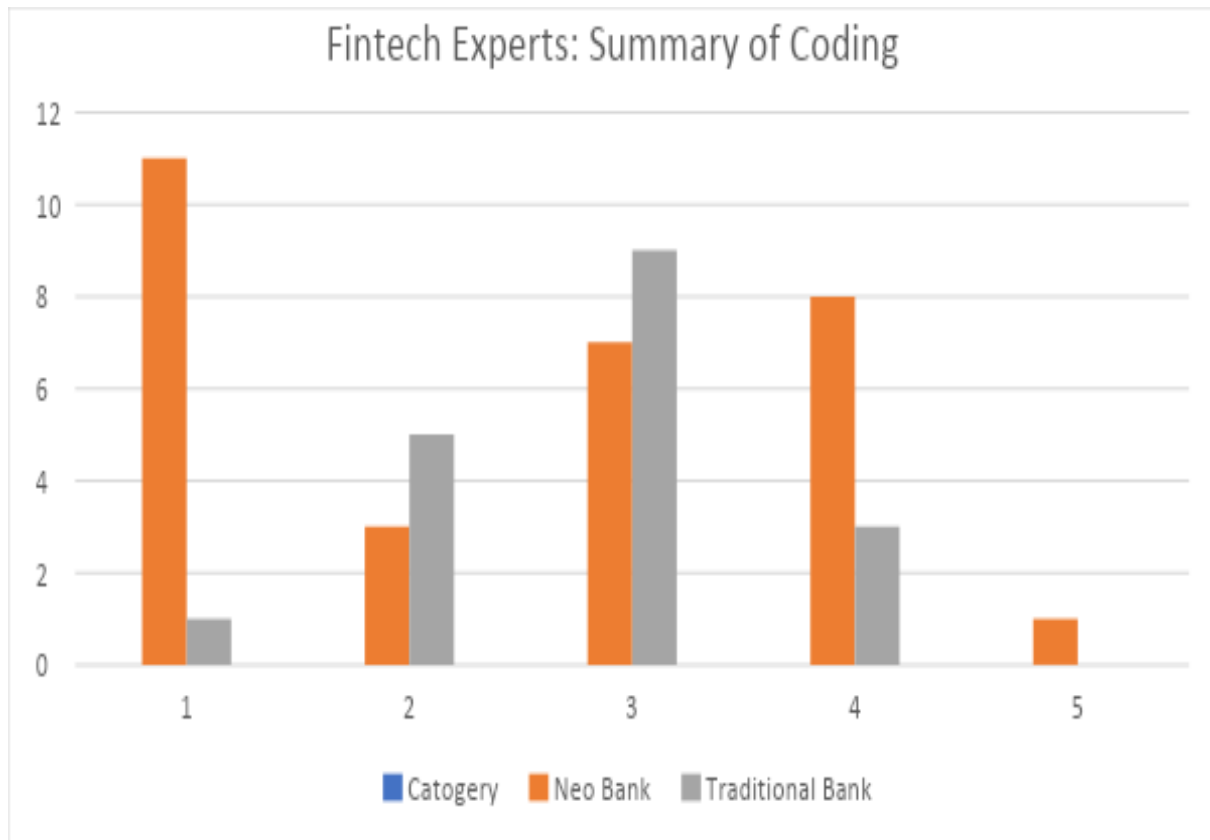


Figure 5: Response of Fintech experts

The data reveals that Neo Banks significantly outperform Traditional Banks in terms of business model and strategies, scoring 11 versus 1. This indicates that Neo Banks' innovative and flexible approaches allow them to be more effective in adapting to market changes and leveraging new opportunities. Their lower scores in regulatory challenges (8 vs. 3) also highlight their struggle with compliance issues, which contrasts with their strong performance in technological advances (1 vs. 0). This suggests that Neo Banks are pushing the envelope in digital solutions, but their regulatory burden may hinder their overall growth and operational efficiency.

On the other hand, Traditional Banks show strengths in customer preference and competition strategies, with scores of 9 and 5 respectively. This reflects their established reputation and extensive customer base, which can provide a competitive advantage. However, their lack of innovation in business model and strategies (1) and their minimal focus on technological advances (0) may limit their long-term adaptability and ability to compete with the more agile Neo Banks. The contrast in regulatory challenges further underscores that while Traditional Banks navigate fewer regulatory hurdles, they might miss out on opportunities for digital transformation that Neo Banks are capitalizing on.

6.4. Discussion

Various strategic dimensions show the analysis of a clear distinction between Neo Banks and Traditional Banks. It is evident that Neo Banks outperform Traditional Banks in terms of business model innovation and strategic adaptability, with scores of 11 and 1 respectively. This shows that their digital-first approach helps them to drive growth and differentiate themselves from the market. They are swift to respond to market dynamics and new opportunities as they arise. These strategies position them as agile entrants in the financial landscape. Nevertheless, the difference in points for regulatory challenges (8 vs 3) implies that these neobanks confront non-trivial difficulties in reaching compliance milestones which could hamper performance and growth overall.

On the contrary, Traditional Banks seem to have better customer preference networks (scored at 9) and competition strategies (scored at 5). The higher scores denote established trust and brand equity over time which result in a strong loyal customer following. Nonetheless, well-organized competitive strategies ensure their presence in the markets despite the intrusion of neo-banks as competitors. However, these findings also reveal weak scores for business model innovation (1), and technological advancement (0) reflecting the possible weakness of traditional banks. Neo-Bank's fast transitioning economy may be inhibited by not putting more effort towards digital transformation compared with its faster paced technology driven development that is hinged upon shifting expectations by customers

Still, while leading in terms of innovation and technology adoption, Neo Banks are highly constrained by regulatory challenges. However, Traditional banks benefit from significant customer bases as well as mature market positions; this nevertheless goes hand in hand with problems for their future survival due to the changing digital environment within which they must operate quickly or die trying. For this reason, it seems like neobanks must strike a balance between agility when innovating versus complying with regulations whereas traditional banks need to boost their own digital capabilities if they want to remain relevant tomorrow.

7. Conclusion and Future Work

In conclusion, this dissertation has analysed the changing financial landscape in India by focusing on the differences and similarities between Neo-banks and traditional banks. The survey covered key areas such as business models, technological advancements, regulatory challenges, consumer preferences, and competitive dynamics by interviewing representatives of the two sectors and fintech experts. With their ability to adopt modern technologies at high speeds and rapidly changing regulatory landscapes, these firms will offer tough competition to established banks. Traditional banks continue prioritizing compliance with regulations and market trends before gradually incorporating emerging technologies for survival amidst competition.

From this research findings, it is evident that financial technology is revolutionizing banking in India. As with traditional banks, neo-banks are operating in a dynamic environment driven by technological advances and changing customer behaviour. In addition to the above insight gained from this study, there is an increasing trend where traditional banks are adopting fintech solutions to enhance their service offering resulting in more collaboration between the

two types of financial institutions. This work contributes to a broader understanding of the evolution of financial services industry which can be used as a resource for those seeking insights about this complex ecosystem. Further research should analyse how these trends could evolve over time with respect to long-term impacts on regulation promoting sustainable financial innovation in future years.

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