



Neobanking in India: Opportunities and Challenges from Customer Perspective

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ABSTRACT: Banking and financial instruments are ever-evolving as per the need of the economy and industries; this is how innovative financial instruments take birth. From mere money lenders and the basic principle of lending, banks have transformed into a modern banking system in which core banking and digitalization plays a major role. Fintech and blockchain technology are the main elements of digitalized banking. After the impact of demonetization and the pandemic spread of the novel coronavirus there has occurred a tendency among people to incline towards digital payments and net banking. Digital payment apps, e-wallets, and online shopping are now going through a higher growth rate. Thus reliability on digital modes is also increasing. Neobanking is a concept completely powered by Fintech wherein there exists no bank in its physical form and complete operation is in its virtual form. This has enabled the Neobanking system to be the financial institution in its complete sustainable potential. The benefits are also distributed among the customers. This paper intends to study the scope of Neobanking in India and also the opportunities and challenges from the customer perspective. Content analysis and the thematic approach of all the customer responses through twitter are also analyzed to get estimation on the prospect of receiving customers and anticipation of their approach, whether positive or negative for the Neobanking system in India. The analysis was found to have a high positive response and approach from neobank users.

KEYWORDS: Neobanking, Digitalisation, Fintech, Sustainable development

I. INTRODUCTION

The modernization of banking has introduced a wide spectrum of products and features

making things simplified and preferable according to the convenience of customers. The traditional banking system has evolved itself to digitalization and core banking over the past two decades. Banks are now known not merely for its basic feature of accepting deposits and lending of money but for many other utility services. It is these utility services and introducing innovative financial products that help the banking units in creating a market share. Banking transactions and settlements are now at a faster pace there exists a mode of settlements made within one day and those within 3-4 working days. NEFT and RTGS are the ones mainly dependant on.

In every business be it small, medium or large-scale business hefty transactions are involved and these are settled on the basis of electronic clearance. Neo banking is a concept where there is no existence of a physical bank as such. It is a complete digitalized platform which deals with banking transaction at the high-security level. The history of neobank had started in Europe. It is the UK, US, and European nations that now have an established base of neo banking across the world and now there are about 100 neobanks (Shettar and Samiti's).

As adaptation is the key to development in any nation, digitalization and modern banking techniques should always be adopted at a faster pace for economic growth and tapping of market opportunity. Furthermore, studying any upcoming or high potential concept would always aid in growing a market perspective and opening up for the new transitions required. It is in this background that the present study has been made. This paper covers the concept of neo banking, its opportunities, and challenges. The assessment has been made based on the perspectives of customers of Indian origin.



II. RESEARCH METHODOLOGY

Neobanks, being a recent development in the economy the study has been done based on the available secondary data. It is a qualitative study based on the perspectives of customers of Indian origin. The combined tweets across the world in twitter are taken for analysis, which has been identified through #neobank and similar tweets. A total of 1730 tweets were identified as of 7th October 2020, and the whole respondents were considered further for content analysis and sentiment analysis using Nvivo software and chrome extension of Ncapture to code all twitter feeds.

III. LITERATURE REVIEW

Being an emerging concept, the detailed study and analysis involved in this field is limited, most of the studies are suggestive and futuristic in nature giving ideas on how this has opened a new paradigm. However, some of the studies closely related and relevant to neobanking has been summarised.

Neobanking is claimed as the core element of modern digitalisation of banks in terms of the study conducted through the leading Russian Neobanks (Komarov & Martjukova, 2020). (Минарченко & Сайко, 2018) has brought forward a descriptive analysis bringing a conceptual familiarity to the readers with regard to neobanking, its features, challenges and future of neobanking opportunities.

A critical analysis conducted in India with regard to regulations and law of Neobanking and its comparative analysis of progress in India with rest of the world have given an overall image on the stage of neobanking progress in India. It was found that with India's high reliance on internet and online transactions has made India a highly potential market opportunity for Neobanking (Dokania, 2019).

RBI has now given an acknowledgement to Neobanks and is regarded within the fourth sector of digital banking. The reason for hesitating in promoting Neobanks is due to its impact in financial sector and local banks (FE Bureau, 2021).

IV. CONCEPT OF NEOBANKING

Neobank is similar to any other commercial bank, with the only difference in its absence of physical presence or branches. It is completely operated through digital modes. This is not a payment bank or e-wallet, it includes all the features of a commercial bank, and therefore no external bank account is to be linked to neobanks.

But these banks are not yet authorized with a banking license, this is dependent on a banking service partner in order to provide other utility services like lending loans or issuing credit cards. Neobanking helps in opening up a large horizon of fintech possibilities overcoming all the limitations of payment banks. Neo banks are also different from payment gateways, as payment gateways only serve as one of the many aspects of neo banking.

With people all over being bound by technology and the high dependence on digitalisation switching from physical bank to fintech is not a bigger issue. In India, the usage of the internet, online banking, and payment banks have found a huge rise over the last 4 years and this is been marked since the demonetisation which has also helped the citizens to be more relied on digital means (Sakpal and Soni). Google pay, PayTM, PhonePe, and many more have been heartily accepted by the Indians. Through this, the difficult phase of customers trusting the online platform reliability has been resolved to a great extent. Now more business units are embracing digital mode of payments.

The decision-making capacity of neo banks is through their data-driven codes, thus the staff required for neo banks are at a minimal to only the hard coding employees, in order to provide a highly secure platform for transactions. Complete process digitalisation also enables easy and effective maintenance of management information systems by applying the tools of data mining, customer relationship management providing a completely personalised experience to the customer. It is found that neo banking makes 90% of their income through net interest and income from technology service and only the remaining 10% from the customers (Okunevych and Hlivecka, 2018).

Over the past few years, neo banking has set a strong foot over the US, UK, Australia, European nations, and now it has also emerged in India since 2019, seed capital being funded. Some of the prominent neobanks are stated below:

- i. **Up Bank:** Owned by Bendigo and Adelaide Bank, a Melbourne based banking initiative established in 2018, is a complete mobile-only based bank.
- ii. **Xinja Bank:** Sydney based independent bank, with high end, offers including home loans and personal loans also.
- iii. **86 400:** Another Australian based bank operating under Authorised Deposit-Taking Institution license



- iv. **Revolut:** The British based banking unit is now the highest promising neo banking enterprise with 43% market share growth and 4.7 trust score
- v. **N26:** German Neobank has various member states, but has stopped operations in UK post Brexit.
In India, the banks have been established and have started to operate since 2017.
- i. **Yono:** the first Indian neo banking mobile app powered by SBI has already gained familiarity and market share in India
- ii. **NiYo:** a complete banking solution for regular employees also collaborated with Upwardly for providing investment advice and consultation.
- iii. **InstantPay:** mostly SME centric financial products and services are being provided within a single user interface
- iv. **811:** a banking app powered by Kotak Mahindra with additional benefits and initial shopping offers in Flipkart and other selected online shopping sites.
- the international debit cards or in the payments made abroad.
- ii) **0\$ overseas ATM fees:** this is applicable for the first six international transactions at a limited amount. This offer varies for each banking unit.
- iii) **Transfer and holding of multiple currencies:** this feature is powered through another payment app. It is to be noted all these fintech are at its initial stage. Therefore one of the mobile app providing such a facility is Pelikan
- iv) **Overseas Transfers:** transfers to overseas are made possible at the interbank rate which is an additional benefit, but is capped with ceiling limits for 'standard' customers.
- c) **Instant transactions:** All payments and transactions made are instantly reflected upon both parties' accounts, this is now a common functionality of fintech, but neo banking has enabled this feature for huge transactions at the business level. It is also easy to track down and revoke if seriously necessary through a mobile app.
- d) **A complete banking assistant:** Most of the neo banking units have developed a feature to assist the customer in a personalised manner suggesting financial management opinion, on how to have more balance in account and setting of monthly savings or expenditure target all using the complex infra systems without having to face the difficulty of manual calculation and understanding. This is followed under complete ethical protocol and with high discretion of no data leakage or sharing.
- e) **Insights on spending:** Similar to the earlier point, autcodes running in the backend helps the customer to get the output on where spending is more stressed and helps in regulating and monitoring the spending habits among themselves. It also includes categorisation of spending based on different aspects and also monthly comparison analysis. This has solved the major problem of every individual in day-to-day life wondering where they had spent all their income on.
- f) **Innovative saving tools:** Saving is always a hard part for many individuals, not when having a bulk amount, but saving from small adjustments or sacrifices made. The two main innovative tools are:
- i) **Automated round-ups:** through this for every spending made the round figure would be debited and the excess amount being debited would be transferred to the savers' account.

4.1 Neobanking: Opportunities

Even though neo banking is a new concept, digitalisation of different sectors and departments are accepted and adapted wholeheartedly at a faster pace. In this decade of development and anticipating a complete transformation to artificial intelligence, fintech and digitalisation are accepted by any economy without much resistance. Globalisation and high involvement in international trade is also another major reason for the spontaneous adaptation mentality among the corporates. Some of the major benefits of neo banking highlighted by the banks themselves and research papers are stated below

- a) **Simplified and hassle-free mode of account creation:** Submission of the document, verification, and account creation with acknowledgment is all online, thus it could be completed anywhere at the convenience of the customer, and the account is created within minutes.
- b) **International payments made easy:** Neobanks are an upgraded version of the conventional banking system and thus the offer international debit cards. Thus these banks are advised for travelers with other add-on benefits. The following are the benefits of neo banking international debit cards:
- i) **0% international purchase fees:** this is the case of the leading neobanks; UpBank and Xinja where no charges are made on the purchase of



- ii) **Multiple Savers:** this is to keep separate virtual piggy jars for each wish the customer has, for e.g. to buy furniture, car, etc. and small amounts could be transferred to these accounts.

4.2. Neobanking: Challenges

Every project and initiative has its own drawbacks and limitations. Being a new paradigm, neo banking also has the limitations any initial project would face.

- a) **Lack of Personal interaction:** being completely online is seen as an advantage in overhead and cost reduction, it is done by compromising all modes of physical personal interaction and no branches involved.
- b) **Cash payments:** even when Indians are indulged in online shopping and transactions, the preferred mode of payment at the payment gateway is cash on delivery in most of the cases, thus neobank have to tend the needs of making physical cash available and another alternative income source rather than through payment gateways.
- c) **Limited financial products:** neobanks not being a complete licensed bank and under the umbrella of another registered bank, the financial products offered are also limited. Certain loans and deposit schemes are not available through neo banking as of now. They are yet to be developed as per the growth, acceptance, and transparency of neo banking.
- d) **Safety and Security:** one of the main concerns of the customers with regard to every online and mobile transaction is the safety of their funds. Needless to say, neo banking is a highly secured with a governing regulatory body of that country. It is the level of awareness and assurance that needs to be increased among the customers.

V. SENTIMENT ANALYSIS OF TWEETS ON DIGITAL BANKING

Sentiment analysis helps to bring out the nature of each tweets; positive negative or neutral and is helpful in bringing out the advantages and disadvantages of a particular variable. Digital banking acceptance by the customers is the initial and most primal requirement for introduction of neobanking. Time and education is the most important factor for customers to trust digital banking facilities. In the field of banking customers should always be provided with the feeling of security. Sentiment analysis is conducted for

understanding digital banking tweets (Table 1) on an overall sentence basis.

Table 1: Sentiment Analysis of Digital Banking

Name	Reference
Positive	55
Very Positive	24
Moderately Positive	31
Negative	3
Moderately Negative	2
Very Negative	1

Source: Primary data.

Most of the tweets (top 10) with regard to digital banking have been addressed on a positive note as it is mostly promoted through the banks and financial enterprises itself. The main base for interaction is formed through boosting and encouraging certain sectors and issues of the economy and showing active participation in promoting social well-being. Various sessions and conference alerts are also dispersed through twitter.

The negative sentiments regarded here are not the negative comments related to digital banking but falls under this category due to the choice of words which has been used in relation to digital banking like less risk, low cost and pointing out the error occurred by a bank in their tweet.

VI. CONTENT ANALYSIS OF TWEETS ON NEOBANKING

Social media has high coverage of every individuals' behaviour, as now it is a part of daily life to post, share, and respond to blogs, microblogs, videos, etc. Twitter is a microblogging site where every user tweets or reacts to any topic of interest they face. For this study, the complete search result feed on the search query #neobank was taken for analysis. The total search results were 1730. This is the output of the coding that has depicted the words in relation to neo banking that has been used more is represented by a bigger size. This was created by filtering the options to only 500 words which are of 3 letter word as minimum length and includes only the stemmed words, thus clubbing all words with similar meaning in order to avoid duplications (Fig 1).



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