

Are Neo Banks the Future Disruptors of Banking in India –A Perspective

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Abstract: *As digital achieves new high, technological innovation has significantly shaped the banking and financial sector, giving rise to fully digital banking services. Providers of these services referred to as Neo banks also termed as digital banks, internet banks and online banks, aim to be more accessible and innovative than traditional banks, usually operating from an app rather than with a physical branch or office. Although some of these providers may seem like a bank—and have even named themselves as such—many lack the required charters, oversight, and range of bank services and thus are merely bank-like. Nevertheless, they have sought to disrupt the traditional banking model by offering financial services in ways that appeal to different groups of consumers. Globally, many large banks have started reducing their branches. In India too, many banks have rationalized their branches and partnered with new-age Neo banks for seamless customer acquisition and product offering. Keeping this in view this conceptual paper highlights the role played by prominent Neo banks in India and their implications towards the traditional banks and Challenger banks in steering them to go forward towards the futuristic digital banking operations. It also touches on the need, mode of operations and services through digital and online offered by Neo-banks, and which were of immense use especially in a pandemic situation like COVID-19.*

Keywords: Neo-banks, technological innovations, digital services, Challenger banks

I. INTRODUCTION

Traditionally all our financial needs, including loans, deposit accounts, debit and credit cards, insurance, have been taken care of by banks. Banks, with the help of its branches spread across the country, have catered to the requirements of most of its customers. However, fintech start-ups and companies have come up with a convenient, hassle-free new age banking experience by launching the Neo banks. The usage of robotics, machine learning and artificial intelligence has helped fintech companies to offer a wide range of solutions to the problems faced by the customers of traditional banks.

II. NEO BANKS

The term Neo bank had first come into prominence in 2017, where Fintech players and digital financial service providers have been on the lookout to challenge the hegemony of the traditional banking system. India though already has neo banking startups and companies, are still in its infant stage from the regulation point of view. Neo banks are a special kind of digital banks. Also known as online banks, digital banks, and the internet only banks, has its operating model based on a mobile app and provide similar services to that of traditional banks. These banks which are 100% digital in nature operates without any physical branch. They however are in partnership with traditional banks which help them acquire the customers most seamlessly. Neo banks is also called as fintech firms that provide digital financial solutions, payments and money transfers, money lending and much more.

As the RBI is stern in prioritizing and has not permitted 100% digital bank model yet in India, Neo banks have no other option but to partner up with the traditional banks. For the end customers, Neo banks deal with sourcing and front-end management alone, while all the monetary transactions are processed by the traditional banks. Neo banks have been acting as bank sales agents, where through their user-friendly platforms and diverse services attract the customers. The diverse digital financial services offered by Neo banks range from opening accounts to assessing the creditworthiness of an individual or an enterprise.

2.1 Digital Bank Vs Neo Banks

Neo banks are also referred to as digital banks. But a digital bank and neo bank are not the same, even though both are based on the mobile-first approach and emphasize digital operating models. While the two terms are sometimes used mutually, there is a difference between the two. Digital banks are banks which carry out its activities in a digital platform. Through digitalization the traditional banks, enables its customers to carry out all its activities online without visiting the branches personally. A Neo bank on the other hand is solely online without any physical branches and is independently or in partnership with traditional banks.

2.2 Challenger Banks Vs Neo Banks

Often people are confused with Challenger banks and Neobanks. Though both the banks are operating more or less on the same principles, there is a line of difference between these two banks, which is indicated below

	Challenger Banks	Neobanks
Regulations	Regulated by banks	Not regulated by banks, follow RBI and government regulations
Type of Business Model	All-inclusive financial institutions with elements of both traditional and neobanks	Similar to tech startups but more technologically driven.
Suitability	Suitable for all sized business	Suitable more for small and medium-sized business
Legal remedies	In case of negative situation defined legal remedies	No defined legal remedies in case of negative situation
Fee	Charge comparatively higher service fees but lower than traditional banks	Cheapest services compared to Challenger banks and traditional banks
Visibility and Acceptance	Better Visibility and acceptance in Indian Market	Comparatively lower visibility and acceptance in Indian Market

2.3 Functional Operations of Neo-Banks:

The mode of operations in Neo banks is entirely different from that of traditional banks. These banks bring together the best of both traditional banking and emerging fintech world. The usage of Robotics, Machine learning and Artificial intelligence with the help of data analytics mainly drives the decision-making process of a neo bank. Being built on virtual infrastructure, Neo banks provide real-time payments with machine learning, Artificial Intelligence enabled accounting, 24/7 customer service powered by chatbots and other automated features such as insurance, loans, balance sheet statements and GST compliance taxations.

2.4 Neo Banks in India

The Neo banking revolution started in India when many Indian startups came up with "Digital Banking" Model, such as Airtel Payments Bank, India Post Payments Bank, Fino Payments Bank, Jio Payments Bank, Paytm Payments Bank and many more. Neo banks are on the increase in India, currently offering different services by partnering up with various banks. With fintech segments like payments and digital lending getting overcrowded, investor's interest has shifted towards Neo banking. Some of the big players in the Indian Neo banking space include NiYo, OPEN, Instantpay, Razorpay, Jupiter, FiMoney, ZikZuk and many more. The traditional banks convinced with the idea that digital transformation is the key to banking in the future, are slowly entering into neo banking space. Banks such as ICICI Bank, IDFC Bank, DCB Bank, Federal Bank, Yes Bank and few more have partnered with startups to provide banking services and expand their base.

ICICI bank has launched ICICI stack, a completely digital platform offering nearly more than 500 services covering the complete banking services spectrum. State Bank of India, the largest public sector bank in the country, launched a fully digital service State bank of India's Yono in 2017, where it had almost 6 million digital savings account and 17 million registered accounts by the end of 2019. Yono offers more than 30 financial products including mutual funds, insurance and loans. As the customers' needs are considerably increasing, Neo banking models are being tailored to suit the needs of the markets where they operate.

2.6 Objectives

The main objective of this paper is to highlight the functional operations of Neo-banks in India. For this purpose, the following objects have been designed-

1. To conceptualize the various functional operations and services rendered by top ten Neo-banks to its customers and businesses in India.
2. Impact of Covid-19 on Neo banks
3. Need and the future of Neo-banks

This article thus highlights the top digital-only banks operating in India and how their services had transformed the banking space to the individuals as well as businesses.

2.7 Top Neo Banks in India

A few of the top leading Neo banks operating in India have been listed below

Neobank	Year of foundation	Founders	Headquarters
Razorpay	2013	Harshil Mathur	Bengaluru
Instant Pay	2013	Shailendra Agarwal	Delhi
Ocare Neo	2015	Dr. Neeraj Sheth	Mumbai
Niyo	2016	Vinay Bargi	Bengaluru
Kotak811	2016	Uday Kotak	Mumbai
Open	2017	Ajeesh Achuthan, Mabel Chacko	Bangalore
Jupiter	2019	Jitendra Gupta	Mumbai
Fi Money	2019	Sujith Narayanan and Sumit Gwalani	Bangalore
Finin	2019	Suman Gandham and Sudheer Maram	Bangalore
ZikZuk	2020	Raj N	Mumbai

2.8 Functional Operations and Services of Top Ten Neobanks in India

- **Razorpay:** Launched in 2013, Razorpay, India's banking platform has served over 10000 businesses. In November 2019 Razorpay has introduced a new product suite –processing payrolls through Opfin, paying expenses through a corporate card, paying vendors of businesses in real-time and disbursing billions of dollars through underlying payouts. Razorpay allows customers to open and operate fully functional current accounts and also possess similar features as that of standard banks such as cheque book, debit card, account statement. E-Commerce businesses can make instant refunds to credit cards, bank accounts and UPI ID. It also automates refunds of Cash on delivery (COD) orders with payment links. The payout links framed by Razorpay helps to automate the entire process of making a refund to the customer within minutes, which is lacking in most of the standard banks, as the process requires 2 to 3 days to undergo the same.
- **Instant Pay:** Instantpay delivers services to the individuals and businesses of all sizes round the clock of 365 days in a year. It processes millions of transactions daily such as instant activation, money tracking and cash deposit features, through web and mobiles. It has partnered with digital Indian banks such as ICICI, Axis Bank, Indus Ind Bank and Yes Bank. As an alternative to traditional and wallets accounts, customers as individuals are offered to open a digital account with Instant Pay. It has also offered the facility of opening a Smart Bank Account to start-ups and SME's and to large enterprises to avail the scalable and cost-effective solutions. In addition to this Instant Pay, Digi Kendra Service offers basic banking, insurance and travel booking facilities along with other services. Billed as India's largest Neobanking platform and empowered with the slogan "Banking for the New India"
- **Ocare Neo:** OcareNeo founded by Dr. Neeraj Sheth in 2015 is driven by the tagline "Your Digital Health Passport" OcareNeo was set up to help the existing generation to focus on their medical needs. Customers get access to their own health and also those of their family members along with financial information. It offers unique facility of Digital QR code along with a Digital card and Digital Piggy bank to pay medical expenses.
- **NiYo:** NiYo caters to the needs of over a million customers. Its capital is deployed towards developing and introducing new product offerings faster, enhancing distribution and marketing and is on the lookout for its

expansion at International markets. Initially, the salaried employees were their targets, which assisted solutions to help the employees to get the most out of their salaries. But now, NiYo provides a suite of useful Banking products, like facilitating the savings of customers through NiyoX –App, NiYo Money- helps the customers to improve and manage their wealth, Niyo Global- which enables the customers to earn 5% interest on their savings and Niyo Bharat- an app that ensures salary cards for the employees. To provide financial literacy to the labour force in India it has announced "NiYo Pathshala" initiative in May 2020. As part of the digital initiative and to promote its services, Niyo is focusing on educating individuals on the benefits and features of branchless banking.

- **Kotak811:** Kotak811 offers personal accounts with debit cards for individuals. Opened on the day of demonetization November 8 2016 Kotak Mahindra came with a new concept of easy, online banking services for its customers through Kotak811. The number in Kotak811 indicates the date of demonetization. A great facility offered to Indian residents to open accounts through their mobiles thus making it paperless, easy to handle and use of operations.
- **Open:** Open Asia's first neo banking platform for SME's and startups, partnered with 12 banks Open offers small businesses and startups an online bank account and a credit card that combines banking, payments and automated accounting all in a single place. It has teamed up with ICICI Bank and has allowed its customers to connect all of their accounts over other banks. E-Commerce platforms of Open have integrated open plugins to their websites for payment collection. In June 2019, the neo bank raised \$30 million in its Series B round from Tiger Global, Tanglin Venture Partners, 3one4 Capital, Speedinvest & AngelList Syndicate. Open digital banking services is trusted by more than twenty lakhs Indian businesses. Open has acquired another neobanking startup Finin on December 14, 2021 for \$10mn.
- **Jupiter:** Built to serve the digital customers of today with the banking service. Users can create their bank accounts in a flash with zero balance account and also extends instant support to its users. Jupiter helps users to gain rewards through points on each and every transaction made.
- **Fi Money:** Designed with a secure digital banking services for working professionals. Fi uses the tagline "Banking just got smarter". Fi offers smart zero balance savings account for their customers and help the users to get interest up to 5.1% on their savings. Secure banking services and exciting rewards are some of the benefits offered by them to their users.
- **Finin:** A modern neobanking startup which strived to bring a new approach to banking. First bank to facilitate easy account opening through a comprehensive app. However Finin has been acquired by Open neobank in December 2021.
- **ZikZuk:** An Indian SME neobanking startup built with the aim of fostering the growth of Indian SME's. Among its products and services, it offers founder's card, a credit card empowering the founders or entrepreneurs with the best credit scores. Connected banking is another facility offered by ZikZuk.

III. IMPACT OF COVID-19 ON NEO BANKS

Currently, COVID-19 has wholly disrupted India's banking and financial services landscape. Neo banks slowed down a bit after Covid-19 but have gone back to the track. The current pandemic and social distancing norms have proven to be a boon for the upcoming Neo banking and Digital banking. About 68% of Indian consumers have started using online or mobile banking to carry out their financial transactions. Many consumers prefer for contactless payments instead of cash or card in post covid19 – Source: FIS PACE Pulse Survey 2020. Though the pandemic has created several challenges, it has also given way to several new opportunities in the coming future due to customer behavior changes. Due to lockdown in the country where people were restrained from coming out of the house and simultaneously even after the lockdown release, much of the customers have started avoiding visiting bank branches due to pandemic, as it has created fear in the minds of the customers with the transmission of virus, through the operation and handling of coins and currency notes. Even from the banking point, fear of banking professionals being infected with disease all led to the need to embrace the digital transaction. It was at this point, customers felt that Digital Interface by neo banks and few of the traditional banks offering digitalized services is better, than the other non-digitalized traditional banks. A major shift to digitalization during pandemic was mainly facilitated by Neobanks, where through their digital services had offered solutions to customers in not visiting

branches physically and prevented them from being infected with the virus. Thus COVID-19 seemed to have certainly pushed Neo banking in a competitive position to traditional banking.

IV. NEED FOR NEO-BANKS

A few of the reasons as to why Neobanks are needed by the individuals as well as businesses are due to its advantages listed below-

- **Simple Account Opening Procedure:** Though the procedure of opening an account in the traditional bank is of fewer complexes than before, still involvement of paperwork, form filling to open bank and deposit accounts, visit the branches in person is still in continuation. With neo-banks, the process is hassle-free, and there is no question of customers to visit any branch to open an account, due to its nonexistence physically. Accounts can be easily opened with the mobile phone.
- **Automated services:** Apart from providing banking service, offer automated real-time accounting and reconciliation services for book-keeping, Balance sheet, Profit and Loss account statement, taxation services such as GST compliances on the mobile platforms at affordable costs.
- **Fewer Costs:** As there are no physical branches to take care of, neo banks save a lot of resources. Hence, there is no fee levied on withdrawals of any kind or annual or monthly maintenance charge.
- **Simple and User- friendly Interface:** With superior technologies, neo banks provide solutions with user-friendly interfaces, simple and valuable insights for services such as payments, receivables and bank statements. The applications and websites are responsive, unlike traditional banks where net-banking facilities are often filled with glitches and lag of mobile applications at many times.
- **Transparency:** Neo-banks are transparent in providing real-time notifications and explanations of any charges and penalties incurred by the customer.
- **Boon for MSME's:** Process of disbursements to stakeholders and vendors is simplified by neo-banks, demystifying the entire process through reduced manual efforts, and by providing unified platforms to monitor the money movement. In addition to this, it also renders other services such as taxation, budgeting and accounting at low costs.

V. CHALLENGES OF NEO BANKS

Neo banks in India facing a significant regulatory constraint as the Indian Banking systems does not allow Neo banks to hold money. RBI's regulations have also not granted a license to such digital banks. Cyber-crime has also been continuously evolving with the involvement of technology. Along with providing comfort to customers, these banks are also on the exposure of people hard-earned money to hackers. Despite Neo banks offering ease of access and better service, the majority of rural customers prefer to visit physical banks and seek assistance from personal relationship managers. Another major challenge that can be faced by neo banks is in finding the stream of revenue as lower UPI transfer charges, interchange fees, and payments may not be the biggest source of revenue to make them move forward.

VI. FUTURE OF NEO-BANKING IN INDIA

Banking has witnessed a significant change in recent times. Owing to the increasing customer expectancies, regulations, economic changes and constant competition, modern banking has embraced technology. Digital platforms, mobile, internet banking, and payments have substantially revolutionized the banking sector. Moreover "The Digital India Moment" has also given the much-needed impetus to the digitalization efforts in the banking sector.

With the focus on digital payments and digital way of doing business, neo banking has currently seemed to be the fastest collaborator with the fairly evolved banking system, especially to cater to the needs of SMEs as well as consumers across segments. Neo banks are catering to futuristic people, who are ready to take the risk and prefer better solutions (Behera). Customers have started embracing the fact that the future will be a digital world and banks are no exception to this. They have started opting technology in all their routine works and activities, including banking. Traditional banks have also started modifying its operations to digitalization, but it still is in its nascent stage, where neo banks are already providing every service of it at a digital platform. India's Neobank startups raised more than \$230 million in 2020 – Report by a Fintech firm. As of 2020, India had a smartphone penetration rate of 56% which is expected to increase to 96% by 2040 – PWC report Sept 2021. Transaction value in Neobanking segment is projected to reach US \$47,936 mn in 2022. Transaction

value is expected to show an annual growth rate (CAGR-2022-2026) of 20.56%. In Neobanking segment, the number of users is expected to be 17.00 m users by 2026- Statista Survey

All these indicate that neo-banks have great potential to grow in India. Overall the growth of Neobanks accelerated by the pandemic and the need for social distancing is unstoppable. Providing a financially inclusive environment to the unbanked of nearly 190 mn as per World's Global Findex Report- India will be the favourite spot for Neobanks. Most traditional banks are also interested in partnering with these Neo banks to build their digital capabilities for the future.

VII. CONCLUSION

Neo banks are to be the future of India. Although many of the traditional banks and financial institutions are filing for bankruptcy there has been a significant rise of new innovations in the banking sector. New players like neo banks are on the rise of popularity as extraordinary advanced technological innovations fulfills the ever changing demand of customers. Although Neo banks are gaining momentum they are yet to sustain profitability as they slowed down a bit during COVID19. Nevertheless, they have great potential to be disruptors in banking and financial services and the key towards profitability would be to convince traditional banks to update themselves in investing new-age technology to provide seamless and swift customer experiences. But with the mounting competition among traditional banks, New-Age Fintechs, Technology firms and non-banking entrants, on one side and due to RBI'S stringent regulations on the other side one has to wait and watch whether the markets are deep enough for Neobanks to grow sustainably and equitably. Another major fundamental determinant of the success of Neobanks depends on how they would handle the data security threat which is a major issue and API integration.

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