

# **The Rise of Neo Banking in India: Decoding Growth Drivers**

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## **ABSTRACT**

**The extensive changes in Indian Banking from the traditional banking to digital banking, today are in technologically driven banking or Financial Technology (Fintech) field with and the Internet of things (IOT) and Artificial Intelligence (AI). The study examines how Fin Tech has revolutionized the traditional banking in India, with special reference to the growth and opportunities in Neo banking during COVID -19. Neo banks are digital-only banks are with no physical branches, cash free accounts; cost reduction as they don't have any physical presence. And they are most preferred form among the millennials. Neo banks are providing personalised value-added services to the tech savvy millennials.**

**Keywords: Digital banking, fin tech, neo banking, Financial Institutions, online banking.**

## **Fintech and Digitalization<sup>1</sup>**

Fintech is basically associated with the financial institutions employing technology like Peer-to-peer, lending apps, payment apps, investment apps, roboadvisors, crypto apps, etc. Today Fintech includes most of the sectors and industries like education, retail banking, Investment management, it also includes use and development of crypto currency.

Fintech is still holds its ground vis-a vis the so called traditional global banking industry with around multi-trillion dollar market valuation.<sup>2</sup>

Amitabh Kant (CEO of NITI Aayog) has stated that-“the Indian Fintech industry has a cumulative funding of over US\$27.6 billion and is expected to be valued at over US\$150 billion by 2025”.

A the Boston Consulting Group (BCG) study in association with the Federation of Indian Chambers of Commerce and Industry (FICCI) mentioned that India's “Fintech industry could reach US\$150-160 billion by 2025. In fact, 33 Fintech investment deals worth US\$647.5 million were closed in the Indian market in the quarter ending June 2020”.

In Global Fintech Hub report 2018, Cambridge placed India at second rank. Fintech, forecast to create 21 million new jobs and bring \$950bn to India's economy by 2025. A new report, titled 'An India Economic Strategy to 2035’

according to report by the Australia-India council. It is worthwhile mentioning that, Indian FinTech happens to be one of top five markets by capital funding and investments in the sector with nearly \$270 million of funding in 2016<sup>3</sup>.

The growth of Fintech companies in India is tremendous there are over 2100 Fintech companies 67 per cent of them are set up in last five years. India's Fintech has grown in funding sources and it is to be noted that across various stages of investment and funding in 2021<sup>3</sup>, investments worth more than US\$8 billion were received.

One of the segments of Fintech is Neo banking which is a contemporary banking technique is digital-only banks with no physical branches, cash free accounts, minimising the operating cost. The concept of Neo banks started to come into the limelight somewhere between 2013-15, it was only in 2017 that the term "neo bank" was used. These banks don't have any registered physical office and they are entirely online or mobile based. All the neo-banks in India work on a partnership model with traditional banks.

Basically, virtual banking experience. Research by Publicis Sapient shows that of the roughly 240 operating globally in April 2021, more than 20% had launched in the previous 12 months as Covid-19 spread around the world.

According to Grant Thornton Bharat report, India's neo banking market is set to grow at three-year compounded annual growth rate of 50.5% to reach \$11.65 billion by FY2025. Neo banks function all their business exclusively online unlike the Challenger banks like Instant pay, Airtel Payments Bank, Jio Payments banks, Paytm Payment bank etc., where most of the functions of their business is online, Neo banks are also online business but they do all of their business exclusively online. The usage of smartphones in India has increased from 46.44% in 2019 to 60.63% in 2021. Covid-19 Pandemic is one of the reasons for increase in usage of smartphones which is an advantage for the growth of digital only banks. Indian neobanks are providing value added services to retail consumers and business consumers especially for MSMEs by providing them banking and non-banking services. bookkeeping, invoicing and reconciliation among others.

The Reserve Bank of India (RBI) Governor Shaktikanta Das on 17 June 2022 in FE Modern BFSI Summit said that the central bank has no plans for digital-only banks. Making his stance clear on new financial products such as buy now pay later (BNPL), the RBI governor said that the central bank is monitoring the space and is not looking to regulate the domain currently. “What is our responsibility as a regulator is that we have to keep track of the leverage that is building in the system and if it is going to pose a challenge at the systemic level.

As and when required, we will come with guidelines...At a very incipient stage, we shouldn't interfere and kill some new business methods and models. We have to allow businesses to grow and we have to allow business practices and methods to grow. We step only when it is time for a regulator to intervene.”

The RBI Governor is of the opinion that as long as new business ideas and methods are functioning without any adverse effects, no regulatory intervention.

### REVIEW OF LITERATURE

1. Prof. Priya Raman, Dr Angad Tiwary Report On Neo Banks: Future Of Indian Banking SYSTEM A Comparative study of Neo Banks and Traditional Banks. The services provided by the Neo Banks have been highlighted. How these banks provide hassle free transactions?
2. Advait Palepu - Reporter - Bloomberg News writes on the relationship between with Capital Investment and the reachability of Neo Banks. Highlighted the growth of Neo banks in India.
3. YASHRAJ DOKANIA NEO Bank- Revolution in Indian Banking Sector- A Critical Analysis the author explains the concept of neo banking, functions, regulations, scope and comparison between Indian and other countries neo banks.
4. Hopkinson, Turcam Klarova and et al, 2019- How neo banks' business models challenge traditional banks: The study studies transformations brought by Neo Banks, the role and its importance and functioning of the Neo banks and the products
5. Agarwal and Nagar, 2020- Study is on the constant changes in the banking industry Highlighted the difference between Neo banks and digital banks. The study also throws light on Drawbacks and advantages Neo Banks.
6. Sameer Thakkar , Shashank Nagarkar , Brijesh Deshani “Neo Banking the future of Banking System in India “The study is on the factors influencing customers preferring to transferring funds online than offline, and the preferred payment bank, and preference for online shopping
7. Bhasin, 2020- study analysed the role of Neo Banks in India. The integration of technology and artificial intelligence for providing efficient banking service. The study also highlighted on the enterprises which are looking forward to enter the Indian Market.

### RESEARCH METHODOLOGY

The study is basically Descriptive Research.

Secondary sources are used to study the trends in Neo Banking. A Comparative method is also used to compare the situation of Neo Banks and Traditional Banks.

### Objectives of the Study

1. Understanding about how Neo banking has changed the traditional financial system in the Indian scenario.
2. To analyse the growth and the opportunities in the Neo banking.

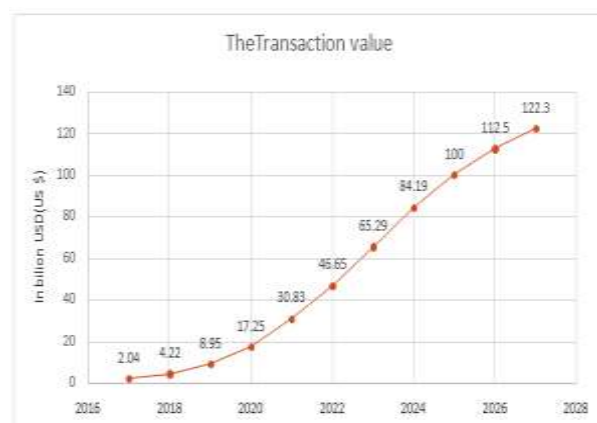
### Transaction Value

The data collected from Statista is used to study the Growth trend of Neo banks in India. As we observe in Graph:2 the predicted value for 2027 is US\$ 122.3 billion and in 2022 it is US\$46.65. The annual growth rate of 21.26% (2022-2027).

- From a global comparison perspective, it is shown that the highest transaction value is in the United States (US\$1,075.00bn in 2022).
- In the Neo banking segment, the number of users is expected to amount to 21.19m users by 2027.

User penetration will be 0.7% in 2022 and is expected to hit 1.4% by 2027

**Graph: 2 -Transaction Value of Neo Banks**



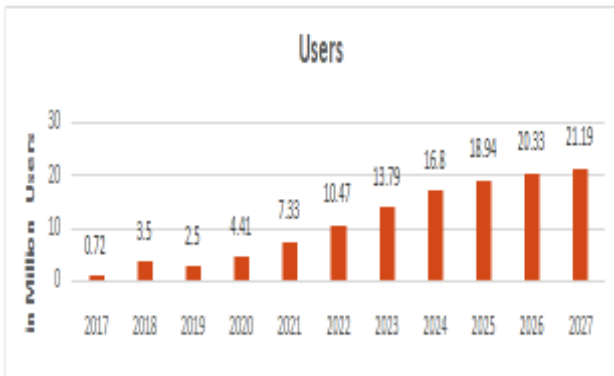
Most recent update: Aug 2022

Source: Statista

### User Trend

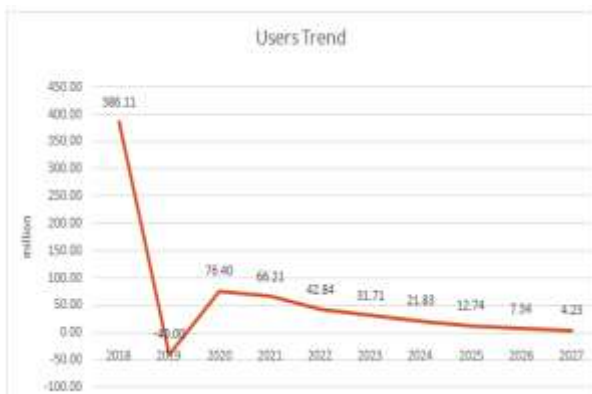
Neo bank users was 0.72 million in 2017 (Graph-3) and there is drastic increase in the users in 2018 and the users are increasing year on year. In year 2021 the number of users is 7.33 million and is projected to increase to 21.19 million. Graph:4 shows User trend. Graph:5 User penetration will be 0.7% in 2022 and is expected to hit 1.4% by 2027.

**Graph: 3 – Users**



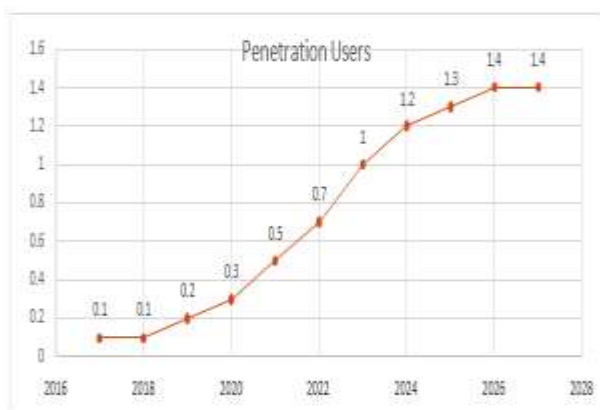
Most recent update: Aug 2022  
Source: Statista

**Graph: 4 Users Trend**



Most recent update: Aug 2022  
Source: Statista

**Graph: 5 Penetration Users**



Most recent update: Aug 2022  
Source: Statista

**Global Transaction Value Comparison**

Global trend shows U.S transaction Value is US\$ 1070 billion highest (Graph:6), In Asian countries Japan transaction value is US\$ 123 billion, whereas India's

transaction value is U. S\$ 46.65 billion, better than Australia and China.

**Graph: 6 Transaction Value Comparisons –Global**

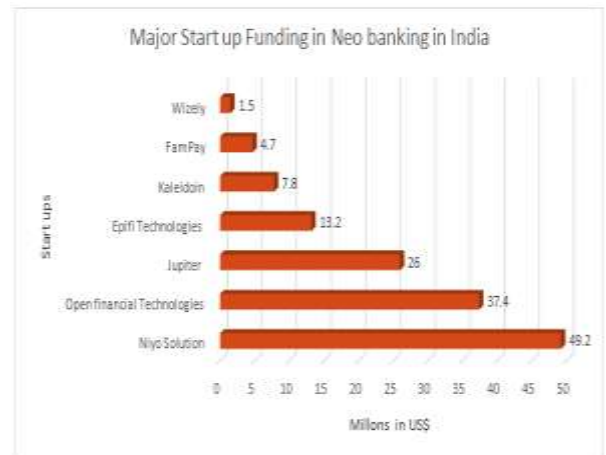


Most recent update: Aug 2022  
Source: Statista

**Major Start Up Companies in Neo Banking**

Neo banks depend on established partner banks and provide various products to the consumers. As shown in the Graph:7 Niyu bank is the leading bank with highest funding partnering with DCB bank, Yes Bank and SBM with products like Niyu global, NiyuX, Niyu Mone, Niyu Bharat etc.,

**Graph:7 Major Neo Banks in India**



Most recent update: Aug 2022  
Source: Statista

**Advantages of Neo banks**

- Neo banks are user-friendly and highly convenient to the customers, for e.g. Niyu, Jupiter, Instant Pay, Pay Zollo etc.
- It is meant for niche customers
- Cost effective to banks and also customers

- Most of the traditional banking services are provided by these banks – saving account, prepaid cards, bill payments and money transfers
- Financial Management services
- The customer services are provided 24/7
- High level Secured features
- Transparency with notification features.

### Challenges & Threats

- India's regulation has not allowed fully digital banks as the RBI Governor has stated
- Creating awareness among the MSMEs to take advantage of Neo banks is a challenge, The banking services to these MSMEs is underserved though account for 30 % of GDP of the country
- Dependency of Neo banks on traditional banks needs to be considered
- Revenue generation is extremely low and not enough for Neo banks to sustain in the long run.
- Big banks can function like Neo banks by maintaining physical presence.
- Targeting rural India looks like a distant dream as digital literacy is comparatively less compared to tier 1,2 & 3 cities.
- Xinja, Australia's Neo bank shut its operation due financial problems. In India, Yelo shut its activity in July 2021.
- It is yet to be seen to what extent there will growth of this Neo banks, they may take a different form over a period of time, it also depends how RBI regulations and recognition will impact its functioning.

In conclusion, to quote Shaktikanta Das, Governor, Reserve Bank of India, Keynote Address delivered at the NITI Aayog's FinTech Conclave, Delhi on March 25, 2019. Opportunities and Challenges of FinTech speech, "I would like to say that FinTech has the potential to reshape the financial services and financial inclusion landscape in India in fundamental ways. It can reduce costs and improve access and quality of financial services. We have to strike a subtle balance between effectively utilising FinTech while minimising its systemic impacts. By enabling technologies and managing risks, we can help create a new financial system which is more inclusive, cost effective and resilient"

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