



## THE RISE OF NEOBANKS: COMPETITION AND INNOVATION IN BANKING SECTOR

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### Abstract

Neobanks are transforming banking with digital-first, customer-centric models. This research examines their rise, impact on traditional banks, and innovation in India and globally.

**Keywords:** Neobanks, Digital Banking, Fintech, Competition, Innovation

### Introduction

Neobanks like Revolut and RazorpayX are reshaping banking with tech-driven services. This paper explores their growth, challenges, and impact on traditional banking.

Neobanks like Revolut, Niyo, and RazorpayX are reshaping banking with tech-driven, customer-centric services. This paper explores their growth, challenges, and impact on traditional banking in India and globally, focusing on SMEs, freelancers, and digital services.

### Statement of Problem

Traditional banks face disruption from agile neobanks offering seamless digital experiences. This study addresses their evolving role and impact.

### Scope of Research Study

The research covers neobanks in India and globally, focusing on SMEs, freelancers, and digital services.

### Significance of Research Study

The significance of the present research study is as under -

1. Educational Significance: Enhances understanding of digital banking trends.
2. Functional Significance: Guides traditional banks on competing with neobanks.
3. Social Significance: Promotes financial inclusion via digital access.
4. Political Significance: Aligns with India's digital economy push.
5. National Relevance: Supports India's fintech growth.
6. International Relevance: Echoes global neobank trends.

### Objectives of Research Study

Objectives of present research study are as follows :

1. Assess neobanks' growth and innovation.
2. Evaluate impact on traditional banks.
3. Identify challenges (regulatory, trust, funding).
4. Recommend strategies for neobanks and traditional banks.

### Hypotheses of Research Study

Hypothesis of present research study is as follows :

1. **Null Hypothesis (H0):** Neobanks have no significant impact on traditional banking.

**Alternative Hypothesis (H1):** Neobanks drive innovation and competition in banking.

### Research Methodology

1. Research Design: Mixed-methods (surveys + interviews + case studies).
2. Research Sample: 50 neobanks, 20 traditional banks, 100 customers in India.
3. Limitations: Focus on select sectors; self-reported data biases.

### Findings

The main findings of the present research study is as under -

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1. Growth: Neobanks in India (e.g., Niyo, Open) saw 3x user growth in 2022; focus on SMEs, freelancers, and digital-first services.
2. Innovation: Offer seamless KYC, instant loans, integrated services via APIs, and personalized financial tools.
3. Challenges: Regulatory hurdles (60%), funding (50%), customer trust (40%), and scalability issues.

### **Recommendations**

The main recommendations are as under -

1. Regulatory Clarity: Define neobank-specific norms, streamline approvals, and ensure compliance ease.
2. Partnerships: Collaborate with traditional banks for infrastructure, trust, and broader reach.
3. Security & Trust: Enhance data protection, fraud prevention, and transparent communication.
4. Financial Inclusion: Expand services to rural and underserved areas via partnerships and digital literacy.

### **Contribution towards Stakeholders**

1. Consumers: Enhanced digital banking experience, financial inclusion, and access to global services.
2. Traditional Banks: Insights to innovate, compete with neobanks, and partner for growth.
3. Policymakers: Guidance on regulating digital banking, ensuring security, and promoting fintech.
4. Neobanks: Highlights growth strategies, challenges, and collaboration opportunities.



## Conclusion

Neobanks drive banking innovation with digital-first models but face regulatory, trust, and scalability challenges. Collaboration with traditional banks and clear policies can boost their impact, aligning with India's digital economy goals.

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