



THE RISE OF NEOBANKS: COMPETITION AND INNOVATION IN BANKING SECTOR

MEGAVATHU ARUNA

1-96, Guntupalli st Colony, Ibrahimpatnam Mandalam

NTR District-521241, Andhra Pradesh (AP)

University - SR University, Warangal

E-mail id: arunamba2013@gmail.com Mobile – 7674836052

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.
2. **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 -

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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