

# To What Extent Does Consumer Awareness Influence the Preferences of Individuals Towards Neo Banks in The Indian Banking Sector?

Ansuman Ray, Ashish Singh, Nishtha Rastogi, Aanchal Agrawal

Finance Department, Universal Business School  
Karjat, Raigad, Maharashtra

**Abstract-** This study investigates the landscape of neo banks in India, focusing on consumer awareness and preferences within the evolving digital banking sector. Acknowledging the global significance of neo banks and the transformative impact they pose to traditional banking, the research addresses a notable gap by examining their adoption in the Indian context. The study explores factors influencing consumer behavior, including convenience, efficiency, trust, and the integration of financial technologies. Employing a comprehensive research methodology, encompassing surveys, interviews, and demographic considerations, the research aims to provide nuanced insights into how neo banks are reshaping the banking experience for Indian consumers. By bridging global insights with specific Indian market nuances, the study contributes to both academic and practical understanding, informing strategies in the banking and fintech industry to better align with the preferences of Indian consumers in the digital era.

**Index Terms-** Neo Banks, Fintech, Artificial Intelligence (AI), APIs, technology, Digital banking.

## I. INTRODUCTION

The banking sector is undergoing a revolutionary shift with the emergence of neo banks, digital entities that operate exclusively in the online realm. This transition challenges traditional banking models, placing a strong emphasis on technology-driven solutions. While the global literature extensively discusses the impact of neo banks on the banking landscape, there is a noticeable research gap in understanding how these changes are perceived and adopted by consumers in the Indian context.

This study focuses on consumer awareness and preferences towards neo banks in India, recognizing the pivotal role of customer preferences in shaping the trajectory of digital banking. The literature review underscores the significance of factors such as convenience, efficiency, trust, and the integration of financial technologies, providing a foundation for the exploration of these themes in the Indian banking sector.

As neo banks continue to redefine the banking experience through innovative digital solutions, this research aims to bridge the gap between global insights and the specific nuances of the Indian market. By investigating the factors influencing consumer behavior, including the impact of demographic considerations, the study seeks to provide a comprehensive

understanding of how neo banks are perceived and embraced by Indian consumers.

The coexistence and interaction between neo banks and traditional banks further add complexity to the evolving banking ecosystem. As India witnesses a positive inclination towards digital banking, it becomes imperative to explore the preferences of the younger demographic and understand the typology of banks emerging in the digital era.

## II. LITERATURE REVIEW

Neo banks, representing a revolutionary shift in the banking sector with their digital-only presence, have become transformative entities (Sadiku et al., 2022; Rocchi, 2020). In contrast to traditional banks, neobanks operate exclusively in the digital realm (Reepu, 2023; Yakovlev, 2023), fostering a transition from conventional to technology-driven banking models (Bataev & Bataeva, 2021).

Customer preferences are pivotal in shaping the banking landscape, particularly in the context of digitalization and innovation (Sadiku et al., 2022). Research indicates a growing alignment of customer preferences with the convenience and efficiency offered by neobanks (Bataev & Bataeva, 2021; Rocchi, 2020). The digitalization of banking processes enhances speed, accuracy, and cost-effectiveness, contributing

to heightened customer satisfaction and increased productivity in the financial sector (Sadiku et al., 2022).

Understanding the factors influencing customer behavior is crucial for neobanks. Tanuwijaya and Oktavia (2023) explore the factors impacting the switching behavior of millennials toward digital banks, emphasizing digital collaboration, CRM quality, switching costs, and perceived ease of use. This underscores the significance of user-friendly interfaces and seamless digital experiences in driving customer preferences.

Trust emerges as a critical factor in neobank adoption, especially among the younger demographic (Melnyk, 2023; Meijer et al., 2023). The shift from traditional to digital banking has transformed the nature of trust between banks and young clients, with social networks, particularly social approval, influencing trust in digital banking (Melnyk, 2023).

The impact of neobanks extends beyond consumer preferences to influence the investment market (Gapurbaeva et al., 2023). Cryptocurrencies and blockchain technologies associated with neobanks have become integral components of the investment landscape, presenting both opportunities and risks (Gapurbaeva et al., 2023). This highlights the interconnectedness of neobanks with broader financial trends.

Global trends in banking, as observed in various studies, point toward increasing competition between neobanks and traditional banks (Rocchi, 2020). Comparative analyses of retail banking markets, such as the French market, suggest that neobanks and online banks are challenging traditional universal banks (Rocchi, 2020). Furthermore, the role of culture in customer acceptance of neobanks is emphasized in international workshops on enterprise applications in the finance industry (Meijer et al., 2023).

A bibliometric analysis by Tuli (2023) explore digital banking adoption in developing Asian economies, identifying constraints, difficulties, and research gaps in areas such as crowdfunding, robo-advisors, payment apps, P2P lending apps, investing apps, and neobanks (Tuli, 2023).

In the evolving banking landscape, neobanks, also known as digital or fintech banks, are redefining the banking experience through innovative digital solutions (Melnyk, 2023; Mogaji, 2023). Leveraging digital technologies, neobanks offer convenient and customer-centric services.

Traditional banks are adapting to the digital age to remain competitive, necessitating the integration of digital innovations to meet evolving customer expectations (Mogaji, 2023). The coexistence and interaction between neobanks and traditional banks shape the evolving banking ecosystem.

Customer preferences play a pivotal role in shaping the success of both neo banks and traditional banks, with younger customers exhibiting a positive inclination towards digital banking (Melnyk, 2023). The digital era has given rise to a typology of banks, including Traditional Banks Adopting FinTech (TBAF), Traditionally Driven Neo Banks (TDNBs), and Digitally Driven Neo Banks (DDNBs), essential for navigating the evolving banking landscape (Mogaji, 2023).

Neo banks contribute to financial inclusivity, particularly in emerging economies, driven by social entrepreneurship to make financial services accessible to underprivileged populations (Avanesh & Zachariah, 2023). The integration of fintech novelties, such as blockchain and virtual banking, brings numerous benefits to the banking industry, enhancing operational efficiency and overall business excellence (Martincevic et al., 2022).

Opportunities and barriers for FinTech vary across global regions, with research covering SAARC and ASEAN countries identifying potential expansion opportunities for FinTech services (Imam et al., 2022). Survey-based studies explore the growth and future prospects of neo banks, shedding light on factors influencing customer choices and the challenges faced in gaining a sustainable customer base (Banga et al., 2023).

Ensuring secure operations is a critical concern for neo banks, as studies highlight vulnerabilities associated with open APIs and propose comprehensive security strategies to protect information assets (Gorodianska et al., 2022).

Neo banks, as disruptors in the traditional banking landscape, have been a focal point of recent research. The impact of financial technologies on business model transformation is emphasized, presenting two strategic approaches for banks in the digital era: evolutionary transformation and revolutionary absorption by alternative distributed services, such as neo banks (Nichkassova & Shmarlouskaya, 2020).

Mubeen et al. (2023) delve into blockchain-based neobanks, focusing on NFTthis, a platform facilitating instant loans with NFT as collateral. The research underscores the importance of flexibility and transparency in the borrowing process, highlighting the potential for neobanks to revolutionize lending practices.

Alam's (2022) research explores the regulatory landscape of FinTech and its role in maintaining financial stability, emphasizing the need for effective regulation to ensure the stability of the financial sector. Nagimova's (2022) study provides insights into the digitalization of Islamic finance, classifying Islamic FinTech into various categories, including neo banks, and offering a global perspective on its growth and investment trends.

Schugoreva et al. (2019) examine the impact of digital transformation on the geo-territorial restructuring of bank branches, exploring how the shift towards digital services influences cost optimization and the distribution of banking units, including the emergence of neo banks.

While specific research on customer preferences in neo banks within the Indian context is limited, the identified global studies contribute valuable insights. Neo banks, with their innovative approaches, are likely to impact customer preferences, emphasizing the need for focused research in the Indian market.

### III. GAP ANALYSIS

#### 1. Geographical Context

The literature review acknowledges the scarcity of specific research on customer preferences in neo banks within the Indian context. This highlights a research gap in understanding how cultural, economic, and regulatory factors unique to India may influence consumer awareness and preferences towards neo banks.

#### 2. Cultural Factors

Cultural factors play a crucial role in shaping consumer behavior. The literature briefly mentions the role of culture in customer acceptance of neo banks in international workshops, but there is a need for a more in-depth exploration of how cultural nuances in India impact the adoption of neo banks.

#### 3. Regulatory Landscape

While Alam's (2022) research touches on the regulatory landscape of FinTech, there is a lack of detailed exploration regarding how Indian regulatory frameworks specifically influence consumer awareness and preferences towards neobanks. Understanding regulatory challenges and opportunities is vital for a comprehensive analysis.

#### 4. Fintech Novelties in India

The literature discusses the integration of fintech novelties like block chain and virtual banking, but there is a need to explore how these technologies are perceived by Indian consumers. Additionally, understanding the role of neo banks in contributing to financial inclusivity in emerging economies, with a specific focus on India, is a potential research avenue.

#### 5. Consumer Trust

While trust is highlighted as a critical factor in neo bank adoption, there is limited exploration of how trust dynamics vary in the Indian context. Investigating factors influencing trust in neo banks among Indian consumers is essential for understanding the adoption process.

#### 6. Awareness Impact on Preferences

The literature implies a connection between consumer awareness and preferences, but there is a research gap in

quantifying and understanding the nature and extent of this relationship. A focused study on how awareness campaigns or educational initiatives impact consumer preferences in the Indian market is warranted.

### IV. METHODOLOGY

We construct an experimental project where we run surveys across our state to understand the consumer consumer awareness influence the preferences of individuals towards neo banks. We try to know if in the state any individual was subject to banking and frauds and loose any amount of cash from his bank account. Our concern also lies in the fact that if they get any kind of help from the cyber fraud department, and if banking institutions like this exist that can avoid such an issue. We also try to understand their persistiveness in solving cases and towards consumers.

Out of the data we run a null hypothesis where

**H<sub>0</sub>:** There is no significant relationship between trust in online banking and likelihood to consider neo banks. Against

**H<sub>a</sub>:** There is a significant relationship between trust in online banking and likelihood to consider neo banks.

And collect our results below.

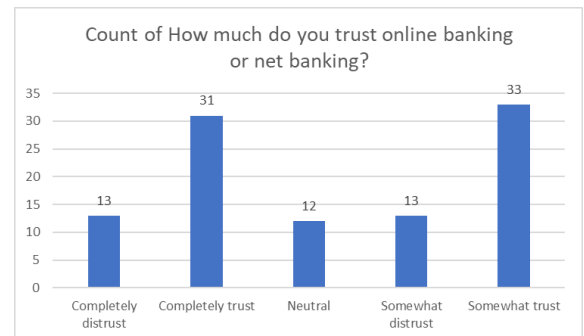


Fig.1 How much do you trust the online banking or net banking

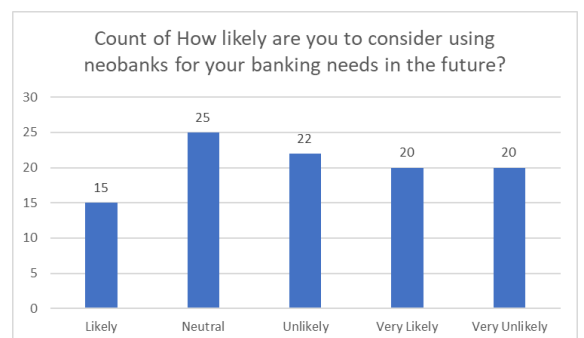


Fig.2 Likely use of neo banks for your banking needs in future

Based on the correlation analysis conducted, a moderate positive correlation was observed between the respondents' trust in online banking or net banking and their likelihood to consider using neo banks for their future banking needs. The correlation coefficient of 0.472466172 indicates that as the level of trust in online banking increases, there tends to be a corresponding increase in the likelihood of considering neo banks in the future.

In this case, the null hypothesis (H0) suggests that there is no significant relationship between trust in online banking and the likelihood to consider neo banks.

## V. CONCLUSION

The findings underscore the significance of trust in shaping individuals' attitudes towards emerging banking technologies. As the financial landscape continues to evolve with the advent of neo banks, fostering and maintaining trust in online banking services appears to play a role in influencing consumer openness to innovative banking solutions.

### Appendix

The heading of the Appendix section must not be numbered. Appendixes, if needed, appear before the acknowledgment.

## ACKNOWLEDGEMENT

The heading of the Acknowledgment section must not be numbered. The preferred spelling of the word "acknowledgment" in American English is without an "e" after the "g." Use the singular heading even if you have many acknowledgments. Avoid expressions such as "One of us (S.B.A.) would like to thank ... ." Instead, write "F. A. Author thanks ... ." Sponsor and financial support acknowledgments are placed in the unnumbered footnote on the first page.

## REFERENCES

1. Bataev, A., & Bataeva, K. (2021). Challenger banks performance model. ACM International Conference Proceeding Series.
2. Gapurbaeva, S., Orozonova, A., Zinchenko, A., Ovcharenko, T., & Huliaieva, L. (2023). The Impact of Cryptocurrency on the Investment Market. Review of Economics and Finance, 21(1), 647-652.
3. Meijer, K., Abhishta, A., & Joosten, R. (2023). Role of Culture in Customer Acceptance of Neo banks. Lecture Notes in Business Information Processing, 467 LNBIP, 97-116.
4. Melnyk, V. (2023). Transforming the nature of trust between banks and young clients: from traditional to digital banking. Qualitative Research in Financial Markets.63
5. Reepu, R. (2023). Banking of the upcoming age: Neo banks. Cultural Marketing and Metaverse for Business Transformation, 5, 101-105.
6. Rocchi, J. (2020). Competition between neo banks and online banks in the French retail banking market. The Journal of Payments Strategy & Systems, 14(1), 5-21.
7. Sadiku, M. N. O., Adedoyin, S. O., & Sharma, R. (2022). The future of traditional banking and its digitalization. International Journal of Information Management, 62, 102497.
8. Tanuwijaya, H., & Oktavia, J. (2023). Analysis of the factors influencing customer switching behavior of millennials in digital banks. Journal of Internet Banking and Commerce, 28(1), 1-17.
9. Tuli, S. (2023). Exploring digital banking adoption in developing Asian economies: A systematic literature review and bibliometric analysis. International Journal of Information Management, 63, 102471.
10. Yakovlev, N. (2023). Model "Nearshoring" – The concept of the new economy of Latin America. Journal of Security and Sustainability Issues, 13(2), 221-232.
11. Melnyk, V. (2023). Digital Banking Trust. DOI: 10.1108/QRFM-08-2022-0129.
12. Mogaji, E. (2023). Redefining Banks in the Digital Era. DOI: 10.1108/IJBM-06-2023-0333.
13. Avanes, N.M., & Zachariah, M. (2023). Bracing up for Financial Inclusivity. DOI: 10.1108/EEMCS-10-2021-0328.
14. Martincevic, I., Crnjevic, S., & Klopota, I. (2022). Novelties and Benefits of Fintech. DOI: 10.4018/IJESMA.2022010107.
15. Imam, T., McInnes, A., Colombage, S., & Grose, R. (2022). Opportunities and Barriers for FinTech. DOI: 10.3390/jrfm15020077.
16. Banga, C., Beena, F., Manchandani, P., & Shukla, V. (2023). Growth and Future of Neo Banks. DOI: 10.1109/ICCIKE58312.2023.10131692.
17. Ozdemir, B. (2023). Strategy Road Map for Small and Medium-Sized Banks. DOI: 10.1109/ICCIKE58312.2023.10131738.
18. Prokopenko, O., Zholamanova, M., Mazurenko, V., Kozlianchenko, O., & Muravskiy, O. (2022). Improving Customer Relations in Ukrainian Banking. DOI: 10.1109/ICCIKE58312.2022.10118069.
19. Ayogu, I.I., Popoola, O.S., Mebawodu, O.J., Ugwu, C.C., & Adetunmbi, A.O. (2022). Performance Evaluation of Feature Selection Techniques. DOI: 10.1109/ICCIKE58312.2022.10117949.
20. Gorodianska, L.V., Nosenko, T., & Vember, V. (2022). Neo banks Operations and Security Features. DOI: 10.1109/ICCIKE58312.2022.10117996.
21. Nickasova, Y., & Shmarlouskaya, H. (2020). Financial technologies as a driving force for business model

- transformation in the banking sector. *International Journal of Business and Globalisation*, 25(4), 419-447. DOI: 10.1504/IJBG.2020.109120.
22. Mubeen, S., Mirza, M. I., Hegde, N. P., & Vikkurty, S. (2023). NFThis - A Blockchain-Based Neo Bank and NFT Marketplace for Minting, Lending and Borrowing NFTs. In 14th International Conference on Advances in Computing, Control, and Telecommunication Technologies, ACT 2023. DOI: 10.1504/IJBG.2020.109120.
23. Alam, N. (2022). FinTech Regulation—A Key to Financial Stability. In *Global Perspectives in Fin Tech: Law, Finance and Technology*. DOI: 10.1007/978-3-031-11954-5\_2.
24. Nagimova, A. Z. (2022). ISLAMIC FINTECH: DIGITALIZATION OF GLOBAL ISLAMIC FINANCE. *World Economy and International Relations*, 66(5), 50-58. DOI: 10.20542/0131-2227-2022-66-5-50-58.
25. Schugoreva, V., Minakov, V., Dyatlov, S., Putkina, L., & Lobanov, O. (2019). The impact of digital transformation on geo-territorial restructuring of bank branches. *International Multidisciplinary Scientific Geo Conference Surveying Geology and Mining Ecology Management, SGEM*, 19(2.1), 659-666. DOI: Not available.
26. Workshop Proceedings. (2023). 11th International Workshop on Enterprise applications, markets and services in the finance industry.