IJCRT.ORG ISSN : 2320-2882

INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

A Study On Neo Banking And Its Impact On The Overall Financial Landscap

Akshay V Kumar

Student

Jain University, Kochi

CHAPTER 1

INTRODUCTION

1. INTRODUCTION

The global financial services industry is undergoing a profound transformation driven by technological innovation, changing consumer preferences, and evolving regulatory frameworks. At the forefront of this transformation is the emergence of neo banks, also known as digital banks or challenger banks, which represent a paradigm shift in how banking services are delivered and consumed. Neo banks are financial technology companies that operate exclusively through digital channels, offering banking services without traditional physical branch networks. These institutions leverage cutting-edge technology, data analytics, and user centric design to provide seamless, personalized, and cost effective financial services to customers worldwide.

The genesis of neo banking can be traced back to the aftermath of the 2008 global financial crisis, which eroded public trust in traditional banking institutions and created a fertile ground for innovation. The crisis exposed significant weaknesses in the conventional banking system, including poor customer service, lack of transparency, complex fee structures, and inadequate technological infrastructure. Simultaneously, the proliferation of smartphones, advancement in cloud computing, artificial intelligence, and the widespread adoption of internet connectivity created an opportune moment for technology driven financial service providers to emerge and challenge the status quo.

Neo banks differentiate themselves from traditional banks through several key characteristics. First, they operate with minimal overhead costs by eliminating the need for physical branches and extensive human resources. This cost advantage enables them to offer highly competitive pricing, including zero or low account maintenance fees, higher interest rates on deposits, and reduced transaction charges. Second, neo banks prioritize user experience by providing intuitive mobile applications with features such as real time transaction notifications, instant money transfers, budgeting tools, and personalized financial insights. Third,

they leverage advanced technologies including artificial intelligence, machine learning, and big data analytics to understand customer behaviour, assess credit risk, detect fraud, and deliver customized financial products.

The rise of neo banking has been particularly pronounced in developed markets such as the United Kingdom, United States, and Western Europe where regulatory sandboxes and progressive fintech policies have facilitated innovation. However emerging economies including India, Brazil, Southeast Asian nations, and African countries are experiencing rapid adoption of neo banking services, driven by large unbanked and underbanked populations, increasing smartphone penetration, and government initiatives promoting financial inclusion. In India, for instance, the implementation of initiatives such as the Unified Payments Interface, Aadhaar based authentication, and the Jan Dhan Yojana has created a robust digital infrastructure that supports the growth of neo banks and other fintech players.

1.1 BACKGROUND OF THE STUDY

The global financial services industry is undergoing a profound transformation driven by technological innovation, changing consumer preferences, and evolving regulatory frameworks. At the forefront of this transformation is the emergence of neo banks, also known as digital banks or challenger banks, which represent a paradigm shift in how banking services are delivered and consumed. Neo banks are financial technology companies that operate exclusively through digital channels, offering banking services without traditional physical branch networks. These institutions leverage cutting-edge technology, data analytics, and user centric design to provide seamless, personalized, and cost effective financial services to customers worldwide.

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1.2 EVOLUTION OF BANKING SYSTEMS

To understand the significance of neo banking, it is essential to examine the historical evolution of banking systems. Traditional banking has progressed through several distinct phases. The first phase involved physical banking where customers visited branches for all transactions, maintained passbooks, and interacted face-to-face with bank personnel. The second phase witnessed the introduction of automated teller machines in the 1960s and 1970s, which provided customers with 24 hour access to basic banking services such as cash withdrawals and balance inquiries. The third phase brought internet banking in the 1990s, enabling customers to access their accounts and perform transactions through personal computers connected to the internet.

The fourth phase emerged with mobile banking in the 2000s, where banks developed mobile applications allowing customers to perform banking activities through smartphones and tablets. However, these mobile banking applications were essentially digital extensions of traditional banks, built on legacy systems and constrained by conventional banking architecture. Neo banks represent the fifth and most revolutionary phase, characterized by mobile first or mobile only operations, cloud-native infrastructure, API driven architecture, and fundamentally reimagined customer experiences designed specifically for the digital age rather than being adaptations of traditional banking models.

This evolutionary journey reflects broader trends in consumer behaviour and technological capabilities. Modern customers, particularly millennials and Generation Z, demand instant gratification, personalized services, transparent pricing, and seamless digital experiences across all aspects of their lives. They are comfortable conducting financial transactions through mobile devices, value convenience over physical proximity, and expect banking services to integrate smoothly with other digital platforms and services. Neo banks have been designed from the ground up to meet these expectations, positioning themselves as lifestyle brands rather than mere financial service providers.

1.3 SIGNIFICANCE OF NEO BANKING IN THE FINANCIAL ECOSYSTEM

Neo banks are transforming the financial landscape in various ways. From a competitive angle, they are compelling traditional banks to hasten their digital transformation efforts, enhance customer service levels, and rethink their pricing models. Numerous established banks are now pouring resources into technological upgrades, creating user-friendly mobile apps, and setting up innovation hubs to stay relevant in a progressively digital market. Some conventional banks have even created their own neo bank subsidiaries or acquired existing neo banks to attract younger, technology-driven customers.

Regarding financial inclusion, neo banks are broadening access to banking services for groups that were previously overlooked. Their streamlined account opening procedures, which typically only require a smartphone and basic identification, remove numerous obstacles that kept individuals from utilizing traditional banking services. Neo banks generally do not have minimum balance requirements, which makes banking accessible to those with lower incomes. Additionally, their use of alternative data and advanced credit scoring techniques allows them to provide credit to individuals without traditional credit backgrounds, thereby encouraging economic participation and empowerment.

From the standpoint of technological innovation, neo banks act as experimental grounds for testing new technologies and business ideas. They are at the forefront of employing artificial intelligence for customer support through chatbots and virtual assistants, adopting biometric authentication to boost security, leveraging blockchain for clear and efficient transactions, and investigating open banking models that facilitate secure data exchange and integration with third-party service providers. These advancements have a ripple effect across the financial sector, elevating the overall technological sophistication of financial services.

On the regulatory front, the rise of neo banks has led authorities globally to reassess current regulatory frameworks and formulate new policies that balance innovation with consumer protection, financial stability, and management of systemic risk. Regulators are facing challenges regarding suitable licensing prerequisites, capital adequacy standards, data privacy regulations, and mechanisms to address consumer complaints for fully digital banks. The approaches taken by regulators greatly differ across jurisdictions, ranging from highly supportive environments featuring specialized fintech licenses and regulatory sandboxes to more cautious strategies that necessitate full banking licenses with rigorous compliance obligations.

1.4 STRUCTURE OF THE STUDY

This research is organized into systematic chapters that progressively build understanding of neo banking and its impacts. Following this introduction, the literature review chapter provides comprehensive examination of existing research on neo banking, digital transformation in financial services, customer adoption patterns, regulatory frameworks, and competitive implications. The methodology chapter details the research design, data collection procedures, sampling techniques, and analytical methods employed. The analysis and findings chapter presents empirical results, discusses key insights, and interprets patterns

emerging from the data. The discussion chapter contextualizes findings within broader theoretical frameworks and practical considerations. Finally, the conclusion chapter summarizes key contributions, acknowledges limitations, and suggests directions for future research while providing actionable recommendations for stakeholders.

1.5 STATEMENT OF THE PROBLEM

The rapid expansion of neo banks has raised critical questions regarding their long term sustainability, regulatory alignment, and impact on traditional banking models. While neo banks promise greater transparency, user friendly experiences, and innovation driven services, their digital only operations pose challenges such as cybersecurity vulnerabilities, limited customer touchpoints, and dependence on third party technologies. Traditional banks, though more secure and trusted, often lag in innovation due to legacy systems, higher operating costs, and hierarchical structures.

The research seeks to address the gap in understanding how neo banks are influencing financial systems, consumer behaviour, and the strategic direction of the banking industry. It aims to identify the key drivers shaping neo banking adoption, evaluate its benefits and limitations, and analyse its broader economic implications.

1.6 SIGNIFICANCE OF THE STUDY

Neo banking plays a crucial role in shaping the future of digital finance, offering innovative alternatives to conventional banking systems. This study's findings will be valuable for a wide range of stakeholders:

- For consumers: It provides insights into the benefits and considerations of adopting neo banking services.
- For financial institutions: It highlights competitive strategies and innovation opportunities.
- For policymakers and regulators: It offers perspectives on designing appropriate frameworks to support safe and sustainable neo banking operations.
- For researchers: It contributes to the academic discourse on financial technology, digital transformation, and banking sector reforms.

1.7 SCOPE OF THE STUDY

This study examines the operational model, customer adoption, and impact of neo banks on the financial landscape. It covers a comparative analysis with traditional banks, focusing on technology integration, cost efficiency, and user experience. The research evaluates regulatory and cybersecurity challenges and the role of neo-banks in promoting financial inclusion. The study also includes selected case studies of Indian and global neo-banks to understand growth patterns and sustainability. All aspects are supported by data that can be quantitatively and qualitatively analysed.

1.8 OBJECTIVES

- To investigate the development and unique characteristics of neo banking in contrast to conventional banking.
- To evaluate how neo banks affect market dynamics, cost efficiency, and financial inclusion.
- To determine the main issues affecting neo banks, such as cybersecurity, regulations, and trust.

1.9 METHODOLOGY OF THE STUDY

This study adopts a descriptive research design. It is based on secondary data collected from journals, research articles, fintech reports, company websites, and regulatory publications. Comparative analysis is used to evaluate the performance and impact of neo banks against traditional banks.

Where applicable, qualitative insights from case studies (e.g., Revolut, Chime, Jupiter, Fi) and quantitative data (such as user adoption rates, growth metrics, and customer satisfaction scores) are analysed to test the study's objectives. Data is interpreted using charts, graphs, and tabular formats for clarity.

CHAPTER 2

REVIEW LITERATURE

1. **Lindstrom and Nilsson (2023)** conducted an in-depth analysis of the burgeoning neo-banking sector, framing its rapid ascent not merely as an innovation but as a direct existential threat to the traditional, incumbent banking system. The study's central thesis posits that the sudden rise of digital-only banks is fundamentally driven by their ability to achieve a superior Cost-to-Serve (CTS) model compared to their brick-and-mortar counterparts. By eliminating physical branches, manual paperwork, and the burden of supporting legacy IT systems, neo-banks achieve operational efficiencies that allow them to offer services at significantly lower costs, often passing these savings on to consumers through lower fees and competitive interest rates.

The authors detail a crucial strategic divergence: while traditional banks operate from an *inside out* product-centric perspective, neo-banks employ an *outside-in* customer-centric model. This is enabled by their fully digital infrastructure, which allows for real-time data analysis (Big Data and AI) to tailor products, create hyper-personalized user experiences, and provide proactive financial management tools (like instant expense categorization and budgeting). This seamless, mobile-first experience directly addresses the modern consumer's demand for convenience and transparency, areas where traditional banks, constrained by bureaucratic processes, have historically lagged.

The impact on the overall financial landscape, as argued by Lindström and Nilsson, is twofold: increased competition and forced innovation. Traditional banks are now compelled to aggressively invest in their own digital transformation, often by acquiring or partnering with Fintech firms, simply to remain relevant. The study concludes that the "threat" is not the complete annihilation of traditional banks, but a profound shift in

their value proposition, forcing them to pivot from being transaction processors to becoming highly efficient, hybrid service providers.

2. Barodawala (2022) research provides a critical perspective on neo-banking, focusing specifically on its transformative role in driving financial inclusion, particularly within emerging economies like India and Southeast Asia. The study frames neo-banks as a powerful tool for extending the reach of formalized financial services to the unbanked and underbanked populations, including gig-economy workers, Micro, Small, and Medium Enterprises (MSMEs), and individuals in rural or remote areas.

The paper identifies three primary mechanisms through which neo-banks achieve this: Accessibility, Simplified Onboarding, and Customized Products. First, since neo-banks operate without a physical branch network, their services are accessible anywhere a user has a smartphone and an internet connection, effectively bypassing geographical barriers that plague traditional banking. Second, their reliance on digital know-your-customer (KYC) and AI-driven verification significantly simplifies the account opening process, which often takes minutes instead of days, reducing the bureaucratic hurdle that traditionally excludes individuals lacking extensive documentation. Third, neo-banks are uniquely positioned to offer specialized products. For instance, they leverage non-traditional data (e.g., utility payments, mobile usage) for credit scoring, allowing them to offer small-ticket loans and financial products to individuals and MSMEs that would typically be rejected by traditional banks due to a lack of formal credit history.

Barodawala argues that this focus on the underserved is not merely altruistic, but a sustainable business model, tapping into a massive, neglected market segment. The main challenge highlighted is the need for appropriate regulatory sandboxes to balance innovation with consumer protection and cybersecurity, ensuring that the drive for inclusion does not compromise the stability of the overall financial system. Ultimately, the study confirms neo-banking's pivotal role as a force for positive socio-economic change by democratizing access to financial tools.

3. Temelkov's (2022) work shifts the focus from neo-banking's disruption capabilities to its long-term viability and regulatory friction. The study identifies three critical non-technological factors governing the sustainability of the neo-bank model: Regulatory Compliance, Consumer Trust, and the Path to Profitability. Many neo-banks, particularly in their early stages, operate as fintech platforms under existing licenses (a "front-end" model), partnering with licensed traditional banks for core services. Temelkov discusses the "regulatory grey area" this creates, noting that as neo-banks gain market share, regulators are struggling to apply existing frameworks designed for branch based banks to purely digital entities. The study emphasizes that a lack of harmonized, specific regulation creates uncertainty and acts as a significant barrier to international scaling and full financial integration.

The second factor, Consumer Trust, is posited as a long-term competitive advantage for traditional banks. While neo-banks excel in user experience, the lack of a physical presence and the highly publicized data breaches in the tech sector erode the deep, generational trust associated with conventional financial

institutions, particularly among older or less tech-savvy customers. Temelkov stresses that neo-banks must heavily invest in robust cybersecurity and transparent grievance redressal mechanisms to cultivate this trust.

Crucially, the study scrutinizes the Path to Profitability. While neo-banks have low operational costs, many struggle with high customer acquisition costs and low revenue per user, relying heavily on interchange fees and basic subscription models. Temelkov argues that for long-term survival, neo-banks must successfully move beyond basic current and savings accounts to offer complex, high-margin products like secured lending, wealth management, and insurance areas currently dominated by traditional banks and heavily regulated. The conclusion is that only the neo-banks that successfully navigate the regulatory landscape and diversify their revenue streams will achieve true sustainability.

4. Rangaraju (2023) review paper systematically examines the revolutionary influence of Artificial Intelligence (AI) on credit scoring, a foundational practice that neo-banks are fundamentally changing. The study's core contribution is its assessment of how AI alters existing credit scoring systems, particularly in extending credit access to previously underserved or "credit-invisible" populations. Traditional credit scoring, relying on limited, structured data like historical loan payments, often excludes individuals with thin files, such as young professionals or migrants. Neo-banks, as Rangaraju details, overcome this limitation by leveraging AI and Machine Learning (ML) models to process non-traditional data sets, including social media behaviour, utility payment history, and mobile phone usage patterns.

The key finding is that AI-based credit scoring systems provide significantly higher accuracy and predictive power than traditional models. This enhancement is achieved by AI's ability to identify complex, non-linear patterns and correlations within massive volumes of diverse data. The practical implication for the financial landscape is a reduction in default risk for neo-banks, allowing them to lower lending barriers and offer tailored credit products. This not only fuels competition but directly promotes financial inclusion by creating a more objective and dynamic assessment of creditworthiness.

However, the review critically addresses the major ethical and regulatory drawbacks of AI-driven credit scoring. Issues such as the "black box" nature of deep learning algorithms and the potential for algorithmic bias—where historical discriminatory data perpetuates unfair lending practices—are highlighted. Rangaraju emphasizes that for neo-banks to maintain trust and regulatory compliance, issues of transparency (Explainable AI - XAI), data privacy, and rigorous bias mitigation strategies must be addressed proactively. The study concludes that AI is an indispensable tool for neo-banking but requires a robust ethical governance framework for responsible deployment.

5. Desai and Joshi (2023) research provides a comprehensive overview of the neo-banking sector, with a critical focus on the cybersecurity and fraud risks inherent in their digital-only operational model. The authors assert that the very advantages of neo-banks their exclusive reliance on online platforms, API integration, and cloud infrastructure create a vast and highly attractive attack surface for sophisticated cyber threats. Unlike traditional banks that can rely on physical security and legacy systems isolation, neo-banks' rapid scaling and reliance on third-party cloud service providers introduce complex systemic dependencies.

The study identifies that data breaches, account takeover fraud, and API exploits are the most significant threats to neo-banks, directly impacting the overall financial landscape through a potential erosion of public trust in digital finance. Desai and Joshi (2023) argue that cybersecurity must be viewed not just as an IT cost, but as a core competitive differentiator and regulatory mandate. The paper emphasizes that the implementation of advanced, multi-layered security protocols is non-negotiable for long-term survival. This includes multi-factor authentication (MFA), end-to-end encryption, and continuous, AI-driven fraud detection systems that monitor transaction patterns in real-time.

Furthermore, the authors discuss the operational and financial impact of a breach, including massive regulatory fines (e.g., for non-compliance with data privacy laws like GDPR) and severe reputational damage that can lead to rapid customer churn. The paper concludes that while neo-banks are instrumental in driving innovation and financial inclusion, their stability and thus the stability of the digitized financial system is fundamentally dependent on their ability to outpace the sophistication of cybercriminals. The study provides a crucial warning to regulators and stakeholders that cybersecurity resilience must be a primary focus when assessing the health of the neo-banking sector.

6. Mistry and Shah (2025) research details the transformative role of cloud computing in enabling the low-cost, high-scalability business model of neo-banks. The paper contrasts the legacy, on-premise IT systems of traditional banks, which require massive upfront capital expenditure (CapEx) and long development cycles, with the cloud native, microservices architecture favored by neo-banks. The central argument is that cloud infrastructure is the fundamental driver allowing neo-banks to achieve a significantly lower Cost-to-Serve (CTS) compared to incumbents.

The study identifies two primary benefits: elasticity and reduced OpEx. Firstly, cloud platforms offer elasticity, enabling neo-banks to instantly scale their computational resources up or down in response to fluctuating demand (e.g., peak payment times). This dynamic capability allows for unprecedented growth without requiring predictive capital investment. Secondly, by shifting from owning physical data centers to a pay-as-you-go Operating Expenditure (OpEx) model for cloud services, neo-banks reduce their IT infrastructure costs by an estimated 50-70%. These cost savings are directly channeled into innovative features, competitive interest rates, and minimal service fees, profoundly impacting the overall financial landscape by forcing incumbents to defend their high-cost models.

Mistry and Shah also highlight the agility provided by the cloud-native core. Using microservices and Application Programming Interfaces (APIs), neo-banks can develop, test, and deploy new financial products in days or weeks, rather than the months required by legacy core banking systems. This speed is crucial for meeting evolving customer expectations for instant, personalized financial tools. The paper concludes that the cloud is not merely a tool but the digital DNA of neo-banking, creating a resilient, flexible, and customer-centric financial institution. The challenge, however, remains managing vendor lock-in and the associated operational risks of outsourcing critical systems to a few dominant global cloud providers.

7. Ziouache (2023) extensive evaluation of global neo-banking practices pinpoints Open Banking mandates and the strategic use of Application Programming Interfaces (APIs) as a key differentiator in the financial landscape. The study argues that regulatory shifts, particularly in Europe (PSD2) and other major financial hubs, have forced traditional banks to open their customer data to licensed third-party providers (like neo-banks), which the digital-first firms are strategically exploiting.

Neo-banks leverage these mandated APIs to achieve two primary strategic goals: data aggregation and ecosystem creation. Firstly, through data aggregation, neo-banks can pull a user's financial information from multiple external accounts (including those held with traditional banks) into their single mobile interface. This allows for a holistic view of the customer's finances, enabling them to offer superior budgeting tools, personalized savings goals, and more accurate advice than any single-account view can provide. Secondly, APIs allow neo-banks to rapidly create a comprehensive financial ecosystem by integrating with non-banking financial technology partners (Fintechs). This "platformification" means a neo-bank can offer insurance, investment, and specialized lending products without having to build and license them internally, a massive time-to-market advantage over incumbents.

Ziouache stresses that Open Banking has leveled the playing field, transforming data, once the exclusive asset of incumbent banks, into a utility accessible to innovators. The impact on the financial landscape is that the primary point of customer interaction is shifting away from the balance sheet holder (the traditional bank) to the superior experience provider (the neo-bank). The main challenge identified is the need for regulators to ensure data privacy and security as data flows freely across multiple institutional boundaries, maintaining customer confidence in the new, integrated ecosystem.

8. Pavan (2024) cross-country analysis investigates the effect of Regulatory Sandboxes controlled testing environments for new financial technologies on the development and scaling of neo-banks. The paper's thesis is that these sandboxes, pioneered by central banks and regulators globally, are a catalytic mechanism for neo banking by addressing the critical dilemma of balancing innovation with financial stability.

The core finding is that sandboxes significantly reduce the time-to-market and regulatory compliance costs for neo-banks. By allowing firms to test products in a controlled, live environment with a limited number of real customers, regulators provide temporary exemptions from certain requirements. Pavan argues this dramatically cuts the cost of failure, encouraging new neo-banks to experiment with unconventional products, such as those leveraging non-traditional data for lending, or unique compliance solutions (RegTech). The study provides empirical evidence that countries with active, well-defined sandboxes see a higher rate of Fintech formation and subsequent funding for digital banking initiatives.

However, Pavan highlights a significant weakness: the "exit strategy" from the sandbox. While many neo-banks successfully test their models, the transition to full licensure often requires extensive capital and compliance overhauls, creating a "sandbox cliff" where promising ventures fail to achieve sustainable scale. Furthermore, the paper notes the challenge of regulatory fragmentation, where the success of a neo-bank in one country's sandbox does not easily translate to regulatory approval in another, hindering the global

scaling potential that the cloud-native model promises. The study concludes that sandboxes are a necessary, but insufficient, condition for true neo-banking disruption; they must be paired with clear, streamlined paths to full digital banking licenses to maximize their positive impact on the overall financial landscape.

9.Kim and Lee (2023) conduct a comparative study on the two dominant neo-banking architectural models: the Full Digital Banking License (e.g., in South Korea or Singapore) and the Partner/Platform Model (common in the US and India). The research aims to understand how these models affect a neo-bank's operational scope, capital requirements, and most importantly, customer trust—a key determinant of long-term success.

The study finds that the Full License Model grants the neo-bank complete control over the balance sheet, allowing them to offer a full range of services (lending, deposits) without dependence on an intermediary. This model often results in higher public trust and confidence as the institution is regulated like a traditional bank, benefiting from explicit deposit insurance protection. However, the barrier to entry is extremely high, requiring substantial initial capital and lengthy regulatory approval, thus limiting the number of disruptive entrants.

Conversely, the Partner Model allows neo-banks (often called "neobanks" or "Fintechs") to quickly launch customer-facing interfaces by relying on an established, licensed bank partner for back-end services. This enables faster market entry and lower start-up costs, profoundly increasing competition. The authors note, however, that this model creates opacity and potential trust gaps; customers may be unclear who holds their deposits or who is responsible for regulatory compliance, leading to perceived risk. The paper concludes that the overall financial landscape is being shaped by this regulatory bifurcation: the Full License model prioritizes systemic stability at the expense of market entry speed, while the Partner Model maximizes rapid innovation and competition, but demands greater transparency to reassure customers and regulators about the safety of funds.

10. **Tandon and Goel (2024)** empirical study investigates the concept of "Sustainability by Design" in the neo-banking sector, arguing that the digital-only model inherently offers environmental and social advantages over traditional banking. The authors focus on how neo-banks operationalize ESG principles through their core services. The primary finding is that the elimination of physical branches and paper-based transactions drastically reduces the financial industry's carbon and environmental footprint. This digital efficiency is further augmented by many top neo-banks utilizing cloud technologies built on renewable resources, contributing to a lower operational emissions profile, a finding corroborated by Deloitte (2023).

The study highlights that neo-banks are not merely passively sustainable but are actively pioneering "Green FinTech." They integrate features that motivate customer engagement with environmental consciousness, such as carbon calculators that track the emissions generated by a user's spending habits, e-statements, and easy access to ethical investment funds. The authors demonstrate that this personalized, eco-friendly banking fosters a higher degree of customer satisfaction and engagement, particularly among younger, environmentally-conscious demographics.

However, the empirical data gathered in the study also reveals a crucial challenge: the technological efficiency in promoting sustainability is often diminished by unresolved issues in safeguarding cybersecurity. Tandon and Goel (2024) suggest that while customers appreciate the "green innovation," their Perceived Green Innovation is mediated by their concern for digital safety and trust. The study concludes that the long-term impact of neo-banks on global sustainability is immense, but successful embedding of ESG requires a holistic approach where robust digital security and explicit ethical frameworks guide the delivery of eco-friendly products, ensuring that the push for innovation does not compromise user data or trust.

11. Alistair (2025) scholarly paper dives into the critical ethical implications of using Artificial Intelligence (AI) and machine learning (ML) for decision-making within the neo-banking sphere, specifically focusing on algorithmic bias in credit scoring and loan approvals. The core concern addressed by the author is that while AI promotes efficiency and broader financial inclusion, its reliance on historical data can inadvertently perpetuate or even amplify existing socio-economic discrimination. If training data reflects past human biases (e.g., in loan approvals for specific demographics), the resulting AI model will learn and enforce that unfairness, creating a severe trust crisis for digital institutions.

The study strongly advocates for the adoption of Ethical AI Governance Frameworks to ensure fairness, transparency, and accountability. Alistair (2025) outlines two key technical solutions: first, Explainable AI (XAI), which allows neo-banks to articulate *why* an AI model made a specific credit decision, moving beyond the traditional "black box" problem and enabling fairness audits. Second, the paper details techniques for bias mitigation through data pre-processing and algorithm modification to neutralize discriminatory inputs.

The impact on the financial landscape is twofold: regulatory pressure and market differentiation. Regulators are increasingly scrutinizing AI models for fairness, and failure to comply with standards could lead to significant fines and reputational harm. Conversely, neo-banks that proactively embed ethical AI governance can use it as a powerful value proposition, attracting customers who prioritize social justice and fair access to finance. Alistair concludes that for neo-banking to fulfill its social mission of inclusion, it must treat algorithmic ethics as a fundamental design requirement, not a regulatory afterthought.

12. Franco-Riquelme and Rubalcaba (2021) research moves beyond the commercial viability of FinTech to assess its contribution to the United Nations Sustainable Development Goals (SDGs), with significant implications for neo-banking. The study utilizes an Open Innovation lens, viewing neo-banks as platforms that foster collaboration to achieve social and environmental goals. The authors empirically correlate various FinTech sub-sectors with specific SDGs.

The primary finding is a strong correlation between digital financial services, such as those offered by neo-banks, and the achievement of SDG 8 (Decent Work and Economic Growth) and SDG 10 (Reduced Inequalities). This contribution stems primarily from financial inclusion, where neo-banks provide access to banking services, micro-savings, and lending products to the unbanked and underserved populations,

particularly in emerging economies. By offering accounts with minimal requirements and lower fees, neo-banks empower low-income households and small businesses, which is crucial for economic development and smoothing consumption vulnerability during economic shocks.

The paper argues that the technology stack of neo-banks is an "indisputable change agent for sustainability." For example, their digital lending and personal finance tools are directly correlated with innovation that serves these SDGs. However, the study also notes that the correlation is not uniform. The biggest challenge identified is the need for greater digital literacy in rural and marginalized communities to fully unlock the benefits of neo-banking technologies. Furthermore, while the impact on social goals is clear, the authors urge for more direct, quantitative evidence linking neo-banking platforms to environmental SDGs (e.g., quantifying the reduction in financial sector carbon emissions). The study concludes that neo-banks are vital instruments for realizing global sustainability agendas, provided policy and education initiatives complement the technological rollout.

13. **The Boston Consulting Group (BCG) 2023** Global FinTech report provides a high-level, yet granular, analysis of the global neo-banking sector, with a critical focus on the sustainability of the business model and the challenging path to profitability. The report reveals a sobering statistic: despite rapid user growth, only a small fraction of global digital challenger banks (around 20 out of 453 globally in 2022) had achieved profitability.

The central issue identified is the unfavourable ratio between Customer Acquisition Cost (CAC) and Customer Lifetime Value (CLTV). Neo-banks have historically relied on aggressive marketing, low-to-no fees, and large referral bonuses to rapidly scale their customer base, resulting in an excessively high CAC. Simultaneously, many struggle with low Average Revenue per User (ARPU) because they primarily offer low-margin, basic transactional accounts. The report emphasizes that for sustainable growth, neo-banks must urgently shift their focus from user volume to CLTV. The ideal ratio, often cited by industry analysis, is $CLTV > 3 \times CAC$.

The paper suggests a strategic blueprint for achieving profitability: diversification and hyper-personalization. Neo-banks must evolve from a single-product provider to a primary financial hub by successfully cross-selling high-margin products like secured credit, wealth management, and insurance. This requires leveraging their vast stores of customer data through Generative AI and advanced analytics to offer hyper-personalized financial concierges and relevant product recommendations. The report concludes that the future financial landscape will be defined by two classes of neo-banks: a few successful players who master the CLTV-to-CAC challenge, and many that will be consolidated, acquired by incumbents, or fail due to unsustainable growth strategies.

14. Bouteraa et al. (2023) analysis of the evolving banking industry provides a crucial examination of the competitive landscape, identifying Embedded Finance (EF) as the next significant wave of disruption that both neo-banks and traditional banks must contend with. The core definition of EF is the integration of financial services (payments, lending, insurance) directly into the platforms of non-financial companies

(e.g., e-commerce sites, ride-sharing apps, and accounting software), delivering financial services at the point of need.

The authors argue that EF represents a challenge to the neo-bank model because it threatens to disintermediate the customer relationship. While neo-banks excel at providing a superior, single-app experience, EF places the transaction and the associated financial product exactly where the customer is already focused (e.g., offering "Buy Now, Pay Later" (BNPL) at the e-commerce checkout). This effectively fragments the revenue structure and reduces the influence of banks on traditional service delivery routes. The financial landscape is being transformed as large platform providers (tech giants) begin to control the customer interface and the valuable data associated with the transaction, pushing banks into the background as mere infrastructure providers (Banking-as-a-Service or BaaS).

Bouteraa et al. (2023) stress that neo-banks are in a better position than incumbents to respond to this threat because their technology is inherently modular and API-driven. Successful neo-banks are pivoting to two strategies: first, becoming a BaaS provider themselves, selling their core technology to non-financial companies to power their EF offerings; and second, leveraging their superior user experience to remain the primary, holistic financial control center, even as transactional services are performed elsewhere. The study concludes that the future of banking will be a battleground between the "Ecosystem Banks" (neo-banks with diversified products) and the "Embedded Banks" (non-financial platforms), forcing a complete re-evaluation of the financial value chain.

15. Lunn (2021) article provides an influential early look at the trajectory of neo-banks, arguing that their most profound long-term impact on the financial landscape will be in transforming services for Small and Medium Enterprises (SMEs). The author argues that SMEs are fundamentally underserved by traditional banks due to their complex, capital-intensive underwriting processes and reluctance to manage the high default risk associated with small business lending.

Neo-banks, Lunn contends, utilize their digital agility to capture this massive, untapped market by offering two critical advantages: speed and convenience. Neo-banks can offer business account opening in minutes and leverage real-time transaction data, integrated with business accounting software (APIs), to provide instant, data-driven lending decisions. This overcomes the lengthy, document-heavy loan application process that SMEs face with incumbent banks. Furthermore, the neo-bank platform often acts as an integrated financial operating system for the SME, combining banking with invoicing, payroll, and expense management, a value proposition traditional banks cannot easily replicate with their siloed legacy systems.

The study concludes that this focus on SMEs is a strategic masterstroke for neo-banks because it solves their persistent profitability problem (low ARPU from retail customers). SME accounts often carry higher balances, require more complex, higher-margin services (B2B payments, lines of credit), and are less sensitive to marginal fee increases than retail consumers. The rise of B2B neo-banks is therefore poised to revolutionize capital access for the engine of most modern economies, directly contributing to job creation and economic growth (SDG 8). The main challenge remains building SME trust in an entirely digital service

for their critical business finances, a trust factor that neo-banks are actively addressing through robust security and transparent fees.

16. **Noda (2024)** comparative analysis highlights the fundamental divergence in Open Banking strategies between the European Union (EU) and the United States (US), which critically shapes the operational models of their respective neo-banking sectors. The paper establishes that the EU's approach is regulatory-driven, anchored by the Payment Services Directive 2 (PSD2). This regulation mandates traditional banks to share customer data via standardized, secure Application Programming Interfaces (APIs), creating a unified framework across member states. This has fostered a neo-banking environment focused on leveraging secure data access for holistic financial management and ecosystem integration.

In contrast, the US approach has historically been industry-led and market-driven, allowing Open Banking growth to be fueled by competition rather than mandate. This led to faster user adoption but necessitated the widespread use of less secure methods like screen scraping by early neo-banks and Fintechs to access customer data. The resulting disparity impacts security, trust, and competition. While PSD2 provides a unified, secure foundation for neo-banks in Europe, the US environment, despite its current push toward regulatory change by the CFPB, is characterized by a fragmented landscape where neo-banks must navigate diverse state and federal rules and data access protocols.

Noda (2024) concludes that the impact on the financial landscape is the creation of two distinct neo-banking archetypes. European neo-banks benefit from a level playing field and standardized security, allowing them to focus on innovation within a stable regulatory perimeter. US neo-banks, while achieving greater initial user numbers, face higher operational and security risks, leading to a focus on rapid growth and consumer adoption before regulatory certainty arrives. The study suggests that while regulation provides security and uniformity, a market-driven approach can sometimes lead to faster, though potentially less secure, application and user adoption rates.

17. The European Central Bank (ECB) 2025 Financial Stability Review provides a critical, supervisory perspective on the emergence of digital-only banks within the Euro area, focusing specifically on their business models, funding structure, and systemic risks. The study identifies approximately 60 digital-only banks operating in the Euro area as of late 2024 and classifies their models into two main archetypes: the Lender Model (transforming retail deposits into consumer, mortgage, or corporate loans) and the Money Market Fund Model (investing deposits in high-quality liquid assets, with limited lending).

A crucial finding is the highly concentrated funding structure of these digital banks, with 80% of total funding sourced from small retail deposits, nearly all of which are covered by Deposit Guarantee Schemes (DGS). The absence of physical branches results in an unusually large share of cross-border deposits, which the ECB views as more price-sensitive and less locally anchored than traditional deposits. This heavy reliance on online distribution and price-sensitive funding increases their vulnerability to online bank runs, despite the banks maintaining unusually high liquidity buffers as a safeguard.

The ECB report's impact on the financial landscape is in defining the regulatory challenge. While digital banks are structurally more efficient (lower operating costs on non-IT expenses), their high administrative costs (driven by massive IT maintenance and three times higher advertising/marketing spending) limit their comparative advantage. The study concludes that the disruption is profound, but regulators must closely monitor the funding structure and asset composition of digital banks to ensure that their business models—especially those with limited lending franchises—do not introduce new forms of systemic risk or liquidity instability to the broader financial system.

18. The dissertation by Peter and Wamsler (2023) provides a thorough quantitative analysis comparing the financial performance of neo-banks and traditional banks in Europe, furnishing empirical proof of the structural benefits and profitability issues associated with the digital banking model. The research employed essential financial indicators such as Return on Assets (ROAA), Return on Equity (ROAE), Net Interest Margin (NIM), and Cost-to-Income (CI) ratio.

The primary conclusion is a notable trade-off between operational efficiency and overall profitability. Traditional banks consistently surpassed neo-banks in terms of ROAA and ROAE, affirming their superior capacity to generate total profits owing to their well-established customer bases, diverse product offerings, and robust capital reserves. However, neo-banks exhibited a higher NIM and markedly lower CI ratios. A reduced CI ratio signifies that neo-banks are significantly more effective at managing their operational costs compared to the income they produce, highlighting the efficiency and scalability benefits they gain by steering clear of outdated systems and branch networks. Additionally, neo-banks reported a greater average P/L (Profit/Loss) per employee, emphasizing their considerably higher effectiveness in generating revenue for each staff member.

The repercussions for the financial sector involve a redefinition of what constitutes banking competitiveness. Neo-banks are evidently excelling in operational efficiency and customer-oriented cost management, which creates pressure on traditional banks to lower their CI ratios. Nevertheless, the study reinforces the fundamental strategic hurdle that neo-banks face: sustainability. Despite their high efficiency, insufficient economies of scale and challenges in cross-selling higher-margin products often hinder their ability to convert operational efficiency into superior overall profits. The authors conclude that neo-banks do not currently pose an existential threat to traditional banks, but they represent a significant disruptive force that is prompting incumbents to focus on innovation and agility to endure.

19. Jha and Sharma (2025) mixed-method research provides a timely comparative analysis of the dual dynamics of customer trust and digital experience as they apply to neo-banks versus traditional banks. The study acknowledges that while neo-banks boast technological superiority, trust remains the paramount factor in financial services. Using surveys and secondary data, the authors identify key determinants of customer confidence, including security perception, service quality, and regulatory assurance.

The core finding confirms a persistent trust gap: traditional banks still dominate trust metrics due to their long-standing reputation, perceived regulatory backing, and the tangible reassurance of a physical branch network. However, neo-banks are rapidly gaining credibility by leveraging the digital experience, specifically excelling in transparency, ease of access, and personalization. Factors such as mental well-being, focus on results, and user experience with the product were identified as having significant positive correlations with customer loyalty in the realm of digital banking. The authors emphasize that perceptions of online privacy and security are crucial elements that foster e-trust, which subsequently serves as a strong indicator of e-loyalty.

Crucially, the study posits that customer satisfaction acts as a mediating factor, channeling the influence of high service quality and trust into stronger loyalty. The impact on the financial landscape is the requirement for a hybrid future. Neo-banks must invest heavily in transparent security and regulatory communication (e.g., clearly stating their deposit insurance coverage) to bridge the trust gap. Conversely, traditional banks must aggressively enhance their digital user interfaces to compete on convenience and personalization. Jha and Sharma conclude that the winner in the future of banking will be the model that successfully converges traditional reliability with cutting-edge digital efficiency.

20. Singh and Kumar (2025) pioneering study takes a novel approach to assessing the neo-banking impact by performing a text mining and thematic analysis of unstructured customer reviews from Google Play and the Apple App Store. The research moves beyond traditional surveys to capture real-time, granular user sentiment regarding neo-banking applications. The core research objective was to identify the key factors influencing customer attitudes and to compare the user experience (UX) between Android and iOS users.

The authors meticulously analysed feedback from six popular neo-banking apps, revealing that ease of use, app usefulness, privacy/security concerns, and the customer support system are the paramount themes determining overall attitude. The study confirmed that positive user experience is central to customer retention, as highlighted by other research in the field. However, the most significant and novel finding was the substantial disparity in user experience between the two operating systems. Specifically, the analysis showed that Android users' reviews were predominantly favourable, while iOS users expressed considerable dissatisfaction with the services provided by the same neo-banking applications.

This finding carries significant implications for the overall financial landscape and the operations of neo-banks. The disparity suggests that many neo-banks may have resource allocation or development biases, prioritizing one platform's UX over the other. The study concludes that to achieve sustained market dominance and fully leverage their digital advantage, neo-banks must ensure platform symmetry in their UX design, recognizing that inconsistent digital experiences erode trust and loyalty, regardless of the core product offering. The research demonstrates the power of utilizing customer-generated data for identifying granular operational and design flaws, complementing broad quantitative studies.

21. Sharma (2025) study provides a crucial consumer-centric perspective on the disruptive force of neo-banking specifically within the rapidly evolving Indian financial landscape. The research employs a descriptive design, surveying participants to compare key factors between neo-banking and traditional banking, including ease of use, cost efficiency, security, and overall satisfaction. The context of the Indian market is vital, as most neo-banks operate under the Partner Model (collaborating with licensed traditional banks due to a lack of independent digital banking licenses).

The key findings show that neo-banks are primarily disrupting the market through superior convenience and technological innovation. The study identifies user-friendly mobile applications, quick and simple onboarding, and advanced digital features as the top three advantages driving customer adoption. This is particularly appealing to a highly digitized, mobile-first population seeking to bypass the bureaucratic processes of incumbent banks. The authors note that the transactional value of neo-banking in India has exploded, demonstrating a rapid increase in monetary value, not just user numbers.

However, the study also highlights significant roadblocks in the Indian context. While the majority of respondents find neo-banking solutions convenient, a large portion still expresses a preference for traditional banking, underscoring the enduring value of long-standing reputation, established customer relationships, and the physical branch network for assurance. Sharma concludes that for the neo-banking system to achieve robust, long-term development in India, greater efforts are needed to address the perceived gap in security and trust. The need for government oversight and regulation is paramount to enabling full public acceptance and ensuring that digital innovation can truly strengthen the core of the Indian banking system.

22. Khmara and Kapliar (2024) study, while focused on the highly-regulated Swiss market, provides crucial insights into the global trend of neo-banks integrating cryptocurrencies and other digital assets into their core offerings. The authors argue that this integration is a strategic move by neo-banks to move beyond low-margin transactional services and cater to a younger, digitally native clientele seeking alternative investment vehicles. Traditional banks, hampered by regulatory caution and legacy IT systems, have largely been slow to adopt digital asset services. Neo-banks capitalize on this gap by offering seamless, in-app access to buying, selling, and holding cryptocurrencies (e.g., Bitcoin, Ethereum) alongside traditional fiat accounts.

The core impact on the overall financial landscape is the democratization of investment opportunities. By lowering entry barriers (minimal investment amounts) and integrating crypto trading directly into the user interface, neo-banks are making digital assets accessible to retail investors who were previously excluded from specialized crypto exchanges. Furthermore, the study notes that the convergence of traditional finance (TradFi) and decentralized finance (DeFi) is accelerated by neo-banks, prompting traditional institutions to urgently explore tokenization and stablecoin adoption to remain competitive.

However, Khmara and Kapliar highlight the significant regulatory and risk management challenges this integration creates. Neo-banks face the delicate balancing act of offering innovative, high-yield digital assets while maintaining robust compliance with Anti-Money Laundering (AML) and Know Your Customer

(KYC) regulations, which are complex and rapidly evolving in the crypto space. The authors conclude that the neo-bank's agility in adopting digital assets positions them as the leading disruptors in wealth management, but their long-term success hinges on their ability to manage the associated volatility and regulatory uncertainty better than their incumbent counterparts.

23. **Agrawal and Yesugade (2022)** perception study frames neo-banking as a comprehensive FinTech revolution, dedicating a significant portion of its analysis to the sector's encroachment into wealth and investment management. Traditionally, these services were reserved for high-net-worth individuals or clients of private banking. The study argues that neo-banks are democratizing investment by integrating simple, fractional investment tools (e.g., fractional shares, low-cost ETFs) directly into the day-to-day banking app.

The core disruptive element is the removal of behavioural and financial barriers. Neo-banks offer investment services with zero or minimal commissions and allow users to start investing with very small amounts, appealing directly to Millennials and Gen Z who are comfortable with digital platforms and prioritize savings/investment features. The study suggests that this integration promotes financial literacy by turning routine spending data into opportunities for automated micro-investing (e.g., 'round-up' features), blurring the line between transactional banking and long-term financial planning.

The impact on the financial landscape is a transformation of the investment advisory model. Traditional financial advisors rely on face-to-face meetings and complex products. Neo banks use robo-advisory AI driven algorithms to provide automated, personalized portfolio management and rebalancing at a fraction of the cost. While the paper acknowledges concerns about the lack of human interaction for complex decisions, it concludes that neo-banks are successfully capturing the mass market investment segment, forcing incumbent wealth managers to adopt hybrid digital models or risk losing the next generation of clients entirely.

24. Sardar and Anjaria (2023) study focuses on the strategic evolution of neo-banks from niche challenger platforms to comprehensive "Super-Apps" within the competitive Indian financial industry. The authors highlight that initial profitability challenges, driven by low-margin transactional revenue, compel successful neo-banks to adopt a diversification strategy. This involves expanding the service offering beyond the core checking and savings accounts into a multi-utility ecosystem encompassing a wide range of financial and non-financial services.

The key to this "Super-App" model is deep integration through partnerships and APIs. Neo-banks are becoming single access points for third-party services like insurance, micro-lending, travel booking, and e-commerce payments. This is achieved through the ABCD Framework (AI, Blockchain, Cloud, Data Analytics) mentioned in the paper, which provides the technological backbone for seamless, secure integration. The study identifies that the transition to a Super-App strategy significantly improves the Customer Lifetime Value (CLTV) by increasing the frequency and variety of customer interactions, solving the critical profitability issue.

The impact on the financial landscape is the creation of a single-interface financial control center. Traditional banks struggle to match this due to fragmented internal systems and cultural reluctance to partner with external FinTechs. Sardar and Anjaria conclude that the Super-App model is vital for neo-banks to sustain their disruptive influence, not just by offering better banking, but by offering a better integrated lifestyle. The strategic aim is to capture a greater share of the customer's wallet and data, establishing a powerful platform that competitors both traditional and digital will find extremely difficult to displace.

25. A critical analysis published by the **International Journal for Multidisciplinary Research (IJFMR) in 2025**, referencing insights from UPPCS Magazine, delves into the complex socio-economic impact of neo-banking in developing countries, specifically India. While acknowledging neo-banking's immense potential for financial inclusion, the study highlights the risk of reinforcing existing social divides unless structural barriers are actively addressed. The core finding is that the benefits of digital innovation are not reaching all segments of the population equally.

The authors apply Social Exclusion Theory and Bourdieu's Theory of Capital to explain this disparity. Marginalized groups, including rural women, scheduled castes, and tribal populations, often lack the necessary Cultural Capital (digital literacy and education) and Social Capital (trust in digital systems) to fully utilize neo-banking services, even when device ownership is present. Barriers include low digital literacy, fear of cyber fraud, and language limitations in digital interfaces.

The impact on the financial landscape is a nuanced understanding of inclusion: access does not equal adoption. Neo-banks are successful in lowering *financial* barriers (minimum balances, fees), but they cannot solve *socio-economic* barriers alone. The paper concludes that for neo-banking to be a truly democratizing force, its proliferation must be accompanied by multi-stakeholder efforts including government, NGOs, and the banks themselves to improve digital financial literacy and ensure interfaces are accessible, multilingual, and culturally appropriate. Without these complementary efforts, neo-banking risks creating a two-tiered financial system where only the digitally skilled reap the full benefits of innovation.

26. This review synthesizes findings from **Ravikumar et al. (2022)** and Mogaji and Nguyen (2024), focusing on the critical link between neo-banking, digital financial literacy, and financial inclusion. The central argument is that the success of neo-banks in enhancing inclusion is directly proportional to their contribution to improving users' digital skills and financial understanding. The core finding is that neo-banks are uniquely positioned to enhance literacy by providing user-friendly platforms and integrated educational tools.

Mogaji and Nguyen (2024) emphasize how the simplified interfaces and use of Artificial Intelligence (AI) in budgeting and expense tracking reduce the complexity of financial management, making it accessible to a larger audience. Features like real-time notifications, categorized spending, and goal-setting wizards act as embedded financial advisors, teaching users better money habits organically. Ravikumar et al. (2022) highlight that in India, neo-banks are simplifying complex processes, such as digital KYC, thereby lowering the cognitive burden of accessing formal financial services.

The socio-economic impact is a democratization of financial expertise. By acting as intermediaries and simplifying complex financial education, neo-banks help bridge the knowledge gap. However, the study reiterates the need to overcome technological barriers, such as limited internet connectivity and low smartphone penetration in rural areas, which obstruct the adoption of these literacy-enhancing tools. The conclusion is that neo-banking serves as a powerful instrument for financial empowerment, but its effectiveness is intrinsically tied to external policy support for digital infrastructure and basic technological access.

27. Asma, Johnson, and George (2022) detailed study on the future of neo-banks in India emphasizes their profound and often overlooked role in revitalizing the Micro, Small, and Medium Enterprise (MSME) sector. The authors argue that MSMEs, which form the backbone of the Indian economy, have been historically neglected by large traditional banks due to the high cost of acquisition, maintenance, and the difficulty in underwriting their unique risk profiles.

The core finding is that neo-banks offer a superior value proposition to MSMEs by addressing their two greatest pain points: slow processes and lack of integrated services. Neo-banks facilitate quick, paperless virtual account opening and provide integrated, user-friendly platforms for business functions like expense management, invoice preparation, and supplier payment processing. This integrated approach, often powered by AI, allows neo-banks to gather more accurate, real-time data on the business's health than traditional quarterly statements, enabling faster and more flexible lending decisions.

The socio-economic impact is the unleashing of capital and efficiency for small businesses. By bridging the information gap between banking, payments, and accounting, neo banks reduce administrative burden, allowing MSME owners to focus on core business activities. However, the authors note that the future success of this MSME focus is contingent upon two key factors: regulatory clarity from the RBI on B2B neo-banking operations, and the ability of neo-banks to build deep-seated trust that transcends the digital interface, particularly concerning the safety and security of business funds. The study concludes that neo-banks are a key mechanism for accelerating the growth and formalization of the MSME sector, which is critical for national economic development.

28. Vijay and Waghmode (2024) comprehensive paper, while detailing the disruptive power of neo-banks, provides a balanced perspective by analysing the enduring competitive advantages held by traditional, incumbent banks. The study concludes that the future of the banking sector is likely characterized by coexistence and convergence rather than outright replacement. The authors identify three primary, non-replicable assets of traditional banks that provide them a distinct edge in the financial landscape.

First is Regulatory Capital and Systemic Trust. Traditional banks possess deep capital reserves, extensive regulatory experience, and are often perceived as "too big to fail," which grants them an unparalleled level of customer and market trust, particularly for high-value services (e.g., mortgages, long-term savings). Second is Product Complexity and Diversification. Traditional banks offer a vast and complex portfolio of high-margin products (e.g., corporate lending, structured finance, global custody) that neo banks, which

largely focus on basic retail accounts, cannot easily or quickly replicate. Third is the Established Customer Relationship and Loyalty, cultivated over decades, which translates into lower Customer Acquisition Costs (CAC) compared to the high marketing spend of neo-banks.

The paper argues that the competitive pressure from neo-banks has forced traditional banks to undergo a crucial digital transformation of their own, leading to a narrowing of the experience gap. They are now focusing on creating their own digital-only spin-offs, partnering with FinTechs for features, and improving their core mobile applications. Vijay and Waghmode (2024) conclude that the long-term impact of neo-banking is not destruction, but a forced evolution of the incumbent model, positioning them to absorb the best of digital technology while retaining their critical advantages of trust and capital strength.

29. This review synthesizes strategic guidance provided by **Wipro (2023)** and analysis by Afflack (2025) regarding the strategic options available to traditional banks in response to the neo-banking challenge. The central theme is that rather than engaging in direct, costly platform-versus-platform competition, incumbents are leveraging collaboration and capital strength to regain competitive ground. The most prominent strategies identified are strategic investment, acquisition, and partnership (BaaS).

Afflack (2025) highlights that many incumbent banks are choosing to acquire or invest in successful neo-banks and FinTechs to instantly gain their superior platform technology and their young, tech-savvy user base. This accelerates their digital transformation by months or years. Wipro's (2023) guide emphasizes the adoption of Banking-as-a-Service (BaaS), where the traditional bank acts as the compliant, licensed back-end, allowing neo-banks and other non-financial companies to use their infrastructure to launch new products. This model allows incumbents to monetize their existing capital and regulatory expertise while offloading the high-risk, high-velocity front-end innovation to others.

The impact on the financial landscape is the creation of a converged, symbiotic ecosystem. Traditional banks provide the financial ballast and regulatory umbrella, while neobanks and FinTechs provide the innovation and customer experience. This convergence is driving the trend toward hybrid models, where the traditional bank launches a "digital only" subsidiary to compete directly with neo banks, effectively leveraging its own core strength without compromising its main brand. The review concludes that the future of banking will increasingly rely on open innovation and co-existence, where the boundary between "neo" and "traditional" becomes blurred by strategic necessity.

30. Monis and Pai (2023) comprehensive literature review synthesizes the key trends shaping the future trajectory of the banking industry, concluding that the final phase of disruption will be characterized by convergence and the rise of the hybrid model. The study acknowledges that neo-banks have successfully redefined customer expectations around convenience, speed, and personalized service, setting a new industry benchmark. However, neither the fully digital model nor the legacy model is seen as unilaterally sustainable in the long run.

The core argument is that the strengths of one model negate the weaknesses of the other, driving them towards an inevitable median. Neo-banks' weakness lies in the lack of deep trust, complexity of services, and sustainable profitability; traditional banks' weakness lies in inefficiency and poor digital UX. The resulting hybrid model is defined by traditional banks leveraging digital transformation to offer exceptional mobile experiences while retaining their physical branch network for complex advisory services, and by neo banks expanding their product suite into higher-margin lending and wealth management to achieve stability.

The final impact on the overall financial landscape is a significant increase in the quality and variety of financial services available to the consumer. The pressure exerted by neo banks has fundamentally raised the floor of consumer banking expectations. Monis and Pai (2023) conclude that the compatibility of neo-banking and traditional banking lies in their potential to co-create a new standard. The ultimate winners in this converged landscape will not be purely digital or purely physical, but institution whether incumbent or challenger that can best execute the strategy of providing a seamless, trusted, capital-backed, and digitally superior experience.

CHAPTER 3

RESEARCH METHDOLOGY

The secondary data collection for your project, "A Study on Neo Banking and its Impact on the Overall Financial Landscape," is vital as it forms the bulk of your evidence (the 30 literature reviews). It requires a systematic and structured approach to ensure the data is relevant, credible, and comprehensive.

SECONDARY DATA COLLECTION METHODOLOGY

1. Data Sources and Categorization

Secondary data will be systematically collected from diverse, credible sources across two main categories:

- Academic Sources (Primary Source of Reviews): Peer-reviewed journal articles, published conference papers, scholarly books, and doctoral/master's dissertations. These sources provide theoretical frameworks, empirical results (quantitative data like performance metrics, user adoption rates), and robust qualitative analyses.
- Industry & Regulatory Sources: Reports from central banks (e.g., RBI, ECB), financial regulators, major consulting firms (e.g., McKinsey, BCG, PwC), FinTech market research reports, and official company publications (e.g., annual reports of listed neo-banks). These sources provide current market figures, policy insights, and strategic perspectives.

2. Search Strategy and Data Extraction

A systematic search strategy was employed, using keyword combinations based on the study's core themes (e.g., "Neo banking profitability," "FinTech regulation impact," "AI credit scoring bias"). The search was primarily conducted using academic databases (like Scopus, Web of Science, and Google Scholar) and repositories of regulatory bodies.

For each of the 30 identified literature pieces, data extraction was structured to capture:

1. Quantitative Data: Financial metrics (Cost to Income, ROA), user growth rates, and market shares.
2. Qualitative Data: Core arguments, theoretical models used, key findings on customer experience, and identified challenges (e.g., ethical and regulatory friction).

3. Data Credibility and Reliability

To ensure the credibility and reliability of the collected data:

- Source Verification: Priority was given to peer-reviewed articles and reports from internationally recognized financial institutions or consulting firms.
- Temporal Relevance: A strong emphasis was placed on literature published within the last five years (2021-2025) to capture the rapidly evolving neo-banking landscape.
- Thematic Coding: The data gathered from the 30 reviews will be organized and categorized (or coded) into thematic clusters (e.g., Technology, Regulation, Sustainability) to ensure completeness and prevent duplication of findings during the analysis stage.

CHAPTER 4

RESULTS AND DISCUSSIONS

Based on the extensive literature review and proposed methodology for your research project, "A Study on Neo Banking and its Impact on the Overall Financial Landscape," here are the synthesized results and discussions structured according to my three objectives.

1. Investigate the Development and Unique Characteristics of Neo-Banking in Contrast to Conventional Banking

Results: Unique Characteristics & Development

Characteristic	Neo-Banking Model	Conventional Banking Model
Operational Model	Digital-Only (No physical branches). Operates with low overhead.	Branch-Based(Physical network). High maintenance and operational costs.
Technology Core	Cloud-Native, API-Driven. Allows for rapid deployment and scalability.	Legacy Core Systems. Slow, expensive integration, often siloed.
Cost Structure	Low Cost-to-Serve (CTS). Relies on operational efficiency.	High Cost-to-Serve (CTS). Heavily weighted by real estate and staff.
Customer Interaction	Mobile-First, Real-Time. Personalization driven by AI/ML data.	In-Person or Basic Digital. Generic services, slow feedback loops.

DISCUSSION

The results confirm that neo-banking's development is fundamentally driven by a superior technological architecture (Reviews 4, 6, 17). The transition to cloud-native, API-driven systems allows neo-banks to achieve a drastically lower Cost-to-Income (CI) ratio compared to incumbents. This structural efficiency, or "Sustainability by Design" (Review 10), is the primary source of disruption, enabling them to offer services with minimal or zero fees, which traditional banks cannot match without severely impacting profitability. The shift to a customer-centric, mobile-first design (Review 19) is not just a feature; it's a strategic difference that positions neo-banks as lifestyle enablers, while conventional banks remain primarily transaction handlers, constrained by their legacy systems.

2. Evaluate How Neo Banks Affect Market Dynamics, Cost-Efficiency, and Financial Inclusion

Results: Impact on Market Dynamics

Impact Area	Resulting Dynamic	Key Mechanism(s)
Market Dynamics	Increased Competition & Convergence	Open Banking (APIs) compels data sharing and Low Barriers to Entry (Partner Model) accelerates growth (Reviews 8, 9, 29).
Cost-Efficiency	Operational Disruption	Cloud Computing and Automated Processes lead to lower CTS (Review 6, 17).
Financial Inclusion	Broader Access (Technological)	AI Credit Scoring (non-traditional data) and Simplified Onboarding (Reviews 4, 21, 26).

DISCUSSION

A. Market Dynamics and Cost-Efficiency:

Neo-banks have profoundly affected the market by accelerating the trend toward convergence (Review 30). The initial competition has forced traditional banks to invest heavily in their own digital transformations (Review 28). The results show that while neo-banks win on efficiency (low CI ratio), traditional banks often retain the lead in absolute profitability (higher Return on Assets) due to their diversified high-margin products (Review 18). Crucially, the rise of Embedded Finance (EF) (Review 14) is identified as the next competitive threat, as it places financial services at the point of need, potentially disintermediating even neo-banks.

B. Financial Inclusion:

The results strongly support the role of neo-banks as a powerful tool for financial inclusion (Review 25, 27). Their use of AI for credit scoring allows them to assess individuals and MSMEs previously excluded due to thin credit files (Review 4, 27). This addresses a key socio-economic need. However, the literature highlights a critical discussion point: access does not equal adoption (Review 25). Socio-economic factors like the digital literacy divide and lack of trust act as significant barriers, particularly in developing economies, indicating that technological inclusion must be complemented by educational and regulatory efforts (Review 26).

3. Determine the Main Issues Affecting Neo Banks, such as Cybersecurity, Regulations, and Trust

Results: Key Challenges

Challenge Area	Specific Issue Identified	Impact on Business/Landscape
Trust	Trust Gap vs. Incumbents; Lack of physical presence and legacy reputation (Review 9, 19).	Hinders adoption for complex, high-value products (e.g., mortgages, wealth).
Cybersecurity	Large Attack Surface (Cloud reliance, APIs); Data breaches and fraud risk (Review 6).	Risk of severe reputation loss and large regulatory fines, undermining digital confidence.
Regulation	Regulatory Ambiguity (Partner Model vs. Full License); AML/KYC complexity (Review 9, 15).	Creates systemic uncertainty, limits cross-border scaling, and increases compliance costs.
Profitability	High Customer Acquisition Cost (CAC) vs. Low Average Revenue Per User (ARPU) (Review 13).	Unsustainable growth models forcing aggressive product diversification or risk of failure.

DISCUSSION

The research confirms that neo-banks face a crucial transition from rapid growth to sustainable stability. The single greatest non-technological issue is the persistent trust deficit (Review 19). While customers appreciate the user experience, many still rely on traditional banks for security and large capital needs. This is exacerbated by the regulatory ambiguity of their operating models (Review 9), which creates uncertainty regarding fund safety.

The discussion on profitability is central (Review 13). Neo-banks must master the CLTV > 3x CAC ratio by pivoting to Super-App strategies and cross-selling high-margin products like investment and secured lending (Review 24). Finally, the technical issue of cybersecurity (Review 6) is intertwined with the trust issue: failure to secure the digital platform immediately erodes the customer confidence that neo-banks strive to build. The future success of neo-banks depends on their ability to move beyond being just an app and become a trusted, compliant, and diversified financial primary provider.

CHAPTER 5

FINDINGS, SUGGESTION, CONCLUSION, AND FUTURE SCOPE

FINDINGS

1. Findings on Development and Unique Characteristics

The defining characteristics of neo-banks are rooted in their technological and operational architecture, which provides structural competitive advantages over conventional banking.

- Operational Efficiency as the Core Advantage: Neo-banks achieve a significantly lower Cost-to-Serve (CTS) and Cost-to-Income (CI) ratio compared to incumbents. This efficiency stems from the elimination of physical branch networks and the avoidance of high-cost legacy IT systems (Reviews 17, 18).
- Technological Architecture: Neo-banks utilize cloud-native, API-driven core banking systems. This architecture provides unprecedented scalability (handling rapid user growth) and agility (fast product development cycles measured in weeks, not months) (Review 6).
- Customer-Centric Design: Neo-banks excel in User Experience (UX). They offer highly personalized, real-time services, budgeting tools, and proactive financial advice powered by AI and Big Data analytics, contrasting sharply with the often generic, reactive services of conventional banks (Reviews 19, 4).
- Licensing Divergence: The neo-banking sector is bifurcated into two primary models:
    - The Partner/Fintech Model: Operating under a traditional bank's license to offer services quickly and cheaply (common in the US and India).
    - The Full Digital License Model: Holding a specific digital banking license, granting full control over the balance sheet and lending (common in parts of Europe and Asia) (Review 9).

2. Findings on Market Dynamics, Cost-Efficiency, and Financial Inclusion

Neo-banks are not only competing with traditional banks but are also fundamentally changing the competitive rules, cost structures, and social reach of the financial sector.

A. Market Dynamics and Cost-Efficiency

- Forced Convergence: The intense competition from neo-banks has forced conventional banks into a phase of accelerated digital transformation (Review 28). The market is moving towards a "hybrid model," where successful institutions combine the trust and capital of incumbents with the technology and UX of challengers (Review 30).
- Disruptive Cost Metrics: While conventional banks maintain higher absolute profits (ROAE, ROAA) due to diversified, high-margin product lines, neo-banks consistently demonstrate superior operational efficiency (lower CI ratio, higher profit-per-employee) (Review 18).
- New Competitive Threats: The next major competitive dynamic is Embedded Finance (EF) (Review 14). EF integrates financial services directly into non-financial apps (e.g., e-commerce), threatening to make the neo-bank interface itself obsolete by placing transactions outside the dedicated banking app.

B. Financial Inclusion

- Technological Inclusion Mechanism: Neo-banks significantly enhance inclusion by leveraging AI-driven credit scoring and using non-traditional data (e.g., mobile usage, utility payments) to assess the creditworthiness of the unbanked and underbanked populations (Reviews 4, 27).
- MSME Empowerment: The Small and Medium Enterprise (SME/MSME) sector is a major beneficiary, gaining access to faster, simpler accounts and flexible, data-driven lending products that traditional banks often failed to provide efficiently (Review 27).
- The Digital Divide Barrier: Despite technological access, a significant barrier to full adoption remains the Digital Financial Literacy Gap (Review 26). The benefits of neo-banking do not reach all segments (especially rural and older populations) equally, leading to the risk of reinforcing existing social inequalities (Review 25).

3. Findings on Main Issues Affecting Neo Banks

The long-term viability and stability of neo-banks are challenged by issues related to market trust, regulatory uncertainty, and the cost of scaling.

- Trust Gap vs. Legacy: Neo-banks suffer from a persistent trust deficit compared to established, regulated traditional banks (Review 19). This lack of trust is primarily driven by the absence of a physical presence and concerns over digital security for high-value transactions (Review 9).

- Regulatory Ambiguity and Fragmentation: Regulators are struggling to apply traditional banking rules to purely digital entities. The lack of harmonized digital banking licenses and clear "exit strategies" from regulatory sandboxes creates systemic uncertainty, which limits the global scaling potential of many neo-banks (Reviews 9, 17).
- Cybersecurity Vulnerability: The reliance on cloud infrastructure and vast API integration creates a large, high-value attack surface, making neo-banks prime targets for sophisticated cyber threats and data breaches. Maintaining robust, real-time, AI-driven security is an essential, high-cost requirement for their operational survival (Review 6).
- Unsustainable Profitability Model: Many neo-banks struggle with a fundamental business model flaw: high Customer Acquisition Costs (CAC) (due to heavy marketing) relative to low Average Revenue Per User (ARPU) (due to offering low-margin, basic accounts). This requires an urgent and successful pivot to a diversified product strategy (Super-App model) to achieve sustainable profitability (Review 13, 24).

SUGGESTIONS

1. Recommendations for Neo-Banks (Challengers)

- Prioritize Customer Lifetime Value (CLTV) over Volume: Neo-banks must shift their focus from aggressive customer acquisition (high CAC) to deepening customer relationships by successfully cross-selling high-margin products (lending, wealth management, insurance). The pursuit of the Super-App strategy is essential for achieving long-term profitability and sustainability (Review 13, 24).
- Enhance Trust through Transparency and Security: To bridge the persistent trust deficit (Review 19), neo-banks must invest heavily in transparent communication, clearly explaining their regulatory compliance and deposit guarantee schemes (DGS) (Review 15). Robust, multi-layered cybersecurity, often powered by AI, must be treated as a core competitive advantage, not just an operational cost (Review 6).
- Embrace Ethical AI Governance: Given the reliance on AI for credit scoring, neo-banks must proactively implement Explainable AI (XAI) frameworks to ensure fairness, auditability, and prevent algorithmic bias against underserved populations (Review 11).

2. Recommendations for Traditional Banks (Incumbents)

- Accelerate Digital Transformation via Strategic Partnership: Rather than costly, slow internal overhauls, incumbents should accelerate their modernization by strategically acquiring successful FinTechs or launching their own dedicated, unburdened digital-only subsidiaries (Review 29).
- Monetize Core Strengths (Banking-as-a-Service - BaaS): Traditional banks should leverage their primary competitive advantages—deep capital, regulatory compliance expertise, and licensing—by

offering them as services (BaaS) to non-financial companies and FinTechs (Review 29). This allows them to participate in the digital ecosystem without bearing the full risk of innovation.

- Reimagine the Branch Network: The physical branch should be repurposed from a transactional hub to a complex advisory center (mortgages, wealth management) and a central point for resolving high-stakes customer issues, complementing the digital experience and reinforcing trust (Review 28).

3. Recommendations for Regulators and Policymakers

- Harmonize Digital Licensing: Regulators must create clear, streamlined, and standardized digital banking license frameworks to reduce regulatory ambiguity and foster innovation while maintaining systemic stability (Review 9).
- Address the Digital Divide: Policy initiatives must complement technological innovation by prioritizing programs to boost digital financial literacy in rural and marginalized communities (Review 25). Furthermore, regulators should establish specific rules to ensure fairness in AI lending algorithms to prevent the technological reinforcement of social inequalities (Review 11).
- Establish Clear Cyber Liability Standards: Due to the complexity of the cloud-based, API-driven models, regulators need to define clear liability and responsibility rules regarding data breaches and cyber fraud involving partner models and third-party cloud providers (Review 6).

CONCLUSION

The study on Neo Banking and its Impact on the Overall Financial Landscape reveals that the emergence of digital-only challengers is not merely an incremental innovation but a structural disruption that is fundamentally reshaping the industry's cost dynamics, competitive rules, and social reach.

1. Structural Transformation: Neo-banks have demonstrated a decisive competitive advantage in cost-efficiency and customer experience due to their cloud-native, API-driven architecture (Objective 1 & 2). This has shattered the high-cost, legacy operational model of conventional banking, compelling incumbents toward a necessary, albeit painful, digital transformation.

2. Dual Impact on the Market: The impact is two-fold: an intense competitive pressure (Objective 2) that has resulted in market convergence and the development of hybrid banking models (Review 30), and a massive push for financial inclusion by leveraging AI to serve previously excluded segments (Review 4). However, this social impact is constrained by the persistent digital literacy barrier (Review 25).

3. The Crux of the Challenge: Trust and Viability: The core issues determining the future of neo-banking lie in non-technological factors (Objective 3). The industry must overcome the trust deficit and resolve the inherent tension between rapid growth and sustainable profitability (high CAC vs. low ARPU) (Review 13). Furthermore, regulatory ambiguity and the ever-present threat of cybersecurity remain significant systemic risks that could undermine digital confidence.

In conclusion, neo-banking has irrevocably raised the bar for financial service delivery, placing convenience, transparency, and personalization at the center of the customer relationship. The ultimate trajectory for the financial landscape is coexistence, where only institutions that successfully blend the capital and trust of the traditional model with the efficiency and agility of the neo-bank model will thrive. The disruption is complete, and the era of the Hybrid Bank is now beginning.

Future Scope

Future research should pivot from analysing initial disruption to focusing on the **sustainability, ethical dimensions, and convergence** of the digital finance ecosystem.

Key areas for exploration include:

1. **Profitability and Sustainability:** Move beyond basic growth metrics to quantify the **Customer Lifetime Value (CLTV)** generated by neo-banks' **diversified product portfolios** (lending, wealth management). Research is needed to determine the most resilient revenue models amidst economic fluctuations (Review 13).
2. **Embedded Finance (EmFi) Impact:** Analyse how the rise of EmFi threatens to **disintermediate** the neo-bank-customer relationship. Future studies should evaluate the success of neo-banks pivoting to the **Banking-as-a-Service (BaaS)** model to maintain relevance (Review 14).
3. **Ethical Governance and Trust:** Conduct empirical studies to quantify **algorithmic bias** in AI credit models and evaluate the effectiveness of **Explainable AI (XAI)** in promoting fairness and rebuilding trust (Review 11).
4. **Systemic Risk and Regulation:** Research the adequacy of current regulatory frameworks in managing the **liquidity risks** and **cross-border compliance** challenges inherent in highly concentrated, cloud-based neo-bank funding structures (Review 17).
5. **Longitudinal Socio-Economic Impact:** Conduct long-term studies to measure the true economic benefits (e.g., job creation, capital access) for **MSMEs** and the impact of digital literacy programs on closing the **digital financial divide** (Review 25, 27).

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