

A STUDY ON NEO-BANKING IN INDIA: GROWTH, CHALLENGES, AND FUTURE PROSPECTS

Raut Nileshkumar Kailashbhai  

¹ Research Scholar, Department of Commerce, Veer Narmad South Gujarat University, Surat, Gujarat, India



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Corresponding Author

Raut Nileshkumar Kailashbhai,
nileshraut571998@gmail.com

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ABSTRACT

Offering creative, user-friendly, and technology-driven banking solutions, neobanks—also known as digital-only banks—are transforming the Indian financial system. Unlike conventional banks with actual locations, neobanks run entirely online using cutting-edge technology to provide smooth financial solutions. The rise of neobanks in India, their operating models, major services, and obstacles they encounter in a quickly changing market are discussed in this research paper. It also looks at the future possibilities of neobanks, underlining their capacity to revolutionize the banking scene while tackling regulatory, technological, and competitive obstacles. By means of a thorough review of literature, corporate reports, and market research, this study hopes to present a clear picture of neo banking in India, its effects on the financial sector, and its part in determining the future of banking.

Keywords: Neo Bank, India, Fintech, Artificial Intelligence (AI)

1. INTRODUCTION

1.1. BACKGROUND

The banking industry in India has undergone significant changes over the past few decades, driven by technological advancements, changing customer expectations, and regulatory reforms. Traditional banks, with their physical branches and legacy systems, have long dominated the financial sector. However, the rise of digitalization, widespread internet access, and the growing adoption of smartphones have paved the way for a new type of banking: neo-banking.

Neo-banks are digital-only financial institutions that operate without physical branches, offering banking services through mobile apps and online platforms. They focus on providing a seamless, customer-centric experience by leveraging technologies such as artificial intelligence (AI), machine learning (ML), and cloud computing. In India, neo-banks have gained traction due to their ability to cater to the needs of a tech-savvy population, particularly millennials and Gen Z, who prefer digital solutions over traditional banking.

1.2. SIGNIFICANCE OF THE STUDY

The emergence of neo-banks in India represents a paradigm shift in the banking industry. With their low-cost operational models, innovative services, and focus on financial inclusion, neo-banks have the potential to disrupt the traditional banking system. However, they also face significant challenges, including regulatory constraints, cybersecurity risks, and competition from both traditional banks and fintech companies. This study aims to provide a comprehensive analysis of the growth, challenges, and future prospects of neo-banks in India, offering insights for policymakers, industry stakeholders, and researchers.

1.3. OBJECTIVES OF THE STUDY

- To examine the growth drivers of neo-banks in India.
- To identify the key challenges faced by neo-banks in the Indian market.
- To analyze the services and operational models of neo-banks.
- To explore the future prospects of neo-banks in India and their potential impact on the banking sector.
- To provide recommendations for neo-banks to overcome challenges and achieve sustainable growth.

1.4. RESEARCH METHODOLOGY

This study adopts a descriptive research design, combining a literature review, secondary data analysis, and case studies of prominent neo-banks in India. Data is sourced from academic journals, industry reports, regulatory documents, and credible online sources. The study also incorporates insights from customer reviews and social media sentiments to understand consumer perceptions of neo-banks. A comparative analysis of neo-banks in India with those in global markets, such as Europe and South Korea, is conducted to draw relevant parallels and lessons.

2. LITERATURE REVIEW

2.1. EVOLUTION OF NEO-BANKING

Neo-banking is a relatively new concept in the global financial services industry, emerging as a response to the limitations of traditional banking systems. Unlike conventional banks, which rely on physical branches and legacy infrastructure, neo-banks operate entirely online, offering a range of services such as savings accounts, payments, loans, and investment products through digital platforms. The concept of neo-banking gained prominence in Europe with players like Monzo, Revolut, and N26, which disrupted the banking sector by offering low-cost, user-friendly services.

In India, neo-banks began to emerge around 2016, driven by the country's rapid digital transformation. The launch of the Unified Payments Interface (UPI) by the National Payments Corporation of India (NPCI) and the government's push for a cashless economy through initiatives like Digital India have created a fertile ground for neo-banks. The Bengaluru-based startup Finin is considered India's first full-fledged consumer neo-bank, offering a range of digital banking services. Other players, such as PayTM Payments Bank, Jupiter, and Niyo, have also entered the market, catering to the growing demand for digital financial solutions.

Table 1

Table 1 Review of Literature			
Source	Focus	Key Findings	Contribution to Study
IOSR Journals (2025) Neo-Banks in India - Challenges and Expansion in Future	Growth and challenges of neo-banks in India	- Neo-banks leverage digital platforms for cost-effective services. - Regulatory constraints and cybersecurity are major challenges. - Future growth depends on partnerships with traditional banks.	Provides insights into operational models and regulatory hurdles, highlighting the need for strategic collaborations.
DPU Business School (2025) Neo-banking challenges and expansion in future	Expansion potential and operational barriers	- Neo-banks target millennials with user-friendly apps. - Lack of physical branches hinders customer trust. - Expansion requires innovation in AI and data analytics.	Emphasizes the importance of customer-centric services and technological innovation for market expansion.
ResearchGate (2025) A Study on Challenges and Future of Neobanks in India	Comprehensive analysis of neo-banks' ecosystem	- Neo-banks promote financial inclusion for unbanked populations. - Competition from fintech and super apps is intense. - Future success hinges on regulatory clarity and cybersecurity.	Offers a broad perspective on neo-banks' role in financial inclusion and competitive dynamics.
IJFMR (2024) Neobanks in India: Innovation, Challenges and Opportunities	Innovation and market opportunities	- Neo-banks offer personalized services using AI and ML. - Partnerships with banks enable compliance with RBI regulations. - Opportunities lie in serving MSMEs and rural customers.	Highlights the role of technology in driving innovation and targeting underserved segments.
IJCRT (2025) Neo Banking: The Future of Banking in India	Future prospects and market trends	- Neo-banks are projected to grow at a 50% CAGR by 2025. - Digital adoption and UPI integration fuel growth. - Trust-building is critical for long-term success.	Provides data on market growth and underscores the importance of digital infrastructure.
EPRA Journals (2025) A Study on the Growth and Emergence of Neo Bank in India	Emergence and growth drivers	- Smartphone penetration and Digital India initiative drive adoption. - Neo-banks reduce costs by eliminating physical branches. - Customer education is needed to overcome trust barriers.	Details the impact of digital transformation and cost-efficiency on neo-banks' growth.

2.2. GROWTH DRIVERS OF NEO-BANKS IN INDIA

Several factors have contributed to the rapid growth of neo-banks in India:

- 1) Digital Adoption:** India has witnessed a significant increase in internet penetration, with over 800 million internet users as of 2025. The widespread availability of affordable smartphones and low-cost data plans has made digital banking accessible to a large population.
- 2) Rise in Smartphone Usage:** The proliferation of smartphones has enabled neo-banks to reach a broader audience, particularly in urban

and semi-urban areas. Mobile apps have become the primary channel for delivering banking services, offering convenience and accessibility.

- 3) **Fintech Collaboration:** Neo-banks often partner with fintech companies and traditional banks to offer a wide range of services. These partnerships allow neo-banks to leverage existing infrastructure while focusing on innovation and customer experience.
- 4) **Cost-Efficiency:** Neo-banks operate without physical branches, significantly reducing operational costs. This allows them to offer competitive interest rates, lower fees, and tailored services, making them attractive to cost-conscious customers.
- 5) **Financial Inclusion:** Neo-banks target underserved segments, such as micro, small, and medium enterprises (MSMEs) and rural populations, by offering accessible and affordable banking solutions. This aligns with India's goal of achieving financial inclusion.

2.3. CHALLENGES FACED BY NEO-BANKS

Despite their growth potential, neo-banks in India face several challenges:

- 1) **Regulatory Constraints:** Neo-banks operate under strict regulations set by the Reserve Bank of India (RBI). Unlike traditional banks, most neo-banks do not hold a banking license and must partner with licensed banks, limiting their operational autonomy.
- 2) **Cybersecurity Threats:** As digital-only entities, neo-banks are vulnerable to cyberattacks, data breaches, and fraud. Building robust cybersecurity measures is critical to maintaining customer trust.
- 3) **Dependency on Traditional Banks:** Many neo-banks rely on partnerships with traditional banks for core banking functions, such as deposit storage and compliance. This dependency can restrict their ability to innovate and scale.
- 4) **Competition from Fintech and Super Apps:** Neo-banks face intense competition from fintech companies and super apps that integrate e-commerce, payments, and financial services into a single platform. Companies like PhonePe and Google Pay pose significant challenges.
- 5) **Customer Trust:** Without physical branches, neo-banks struggle to build trust among customers accustomed to traditional banking. Convincing customers to switch to digital-only platforms requires significant effort.

2.4. FUTURE PROSPECTS

The neo-banking market in India is projected to grow at a compound annual growth rate (CAGR) of over 50% from 2016 to 2025, driven by increasing digital adoption and consumer demand for personalized financial services. Neo-banks have the potential to redefine the banking experience by offering seamless, user-friendly services tailored to the modern, tech-savvy consumer. However, their success will depend on their ability to navigate regulatory challenges, enhance cybersecurity, and differentiate themselves in a competitive market.

3. NEO-BANKING IN INDIA: AN OVERVIEW

3.1. DEFINITION AND CHARACTERISTICS

Neo-banks are digital-only financial institutions that provide banking services through mobile apps and online platforms. Unlike traditional banks, they do not maintain physical branches, relying instead on technology to deliver services such as savings accounts, payments, loans, and investment products. Key characteristics of neo-banks include:

- **Digital-First Approach:** All services are delivered through digital channels, ensuring a seamless and convenient user experience.
- **Customer-Centric Services:** Neo-banks focus on personalized services, using AI and data analytics to tailor offerings to individual customer needs.
- **Low-Cost Operations:** By eliminating physical branches, neo-banks reduce operational costs, allowing them to offer competitive pricing and innovative products.
- **Partnerships with Traditional Banks:** Most neo-banks in India operate as fintech platforms in partnership with licensed banks, enabling them to offer banking services without a full banking license.

3.2. KEY PLAYERS IN INDIA

Several neo-banks have emerged in India, each offering unique services and targeting specific customer segments. Some prominent players include:

- 1) **PayTM Payments Bank:** One of the largest neo-banks in India, PayTM Payments Bank offers services such as savings accounts, digital payments, and investment products. It has leveraged its parent company's fintech expertise to gain a significant market share.
- 2) **Jupiter:** A neo-bank focused on millennials and Gen Z, Jupiter provides a user-friendly app for savings, investments, and expense tracking. It partners with Federal Bank to offer banking services.
- 3) **Niyo:** Niyo specializes in travel-focused banking solutions, offering zero forex markup cards and digital savings accounts. It collaborates with banks like Yes Bank and DCB Bank.
- 4) **Finin:** India's first full-fledged consumer neo-bank, Finin offers a range of services, including savings accounts, bill payments, and investment tools, through a single digital platform.
- 5) **RazorpayX:** Targeting MSMEs, RazorpayX provides business banking solutions, including current accounts, payroll management, and vendor payments, in partnership with licensed banks.

Image 1

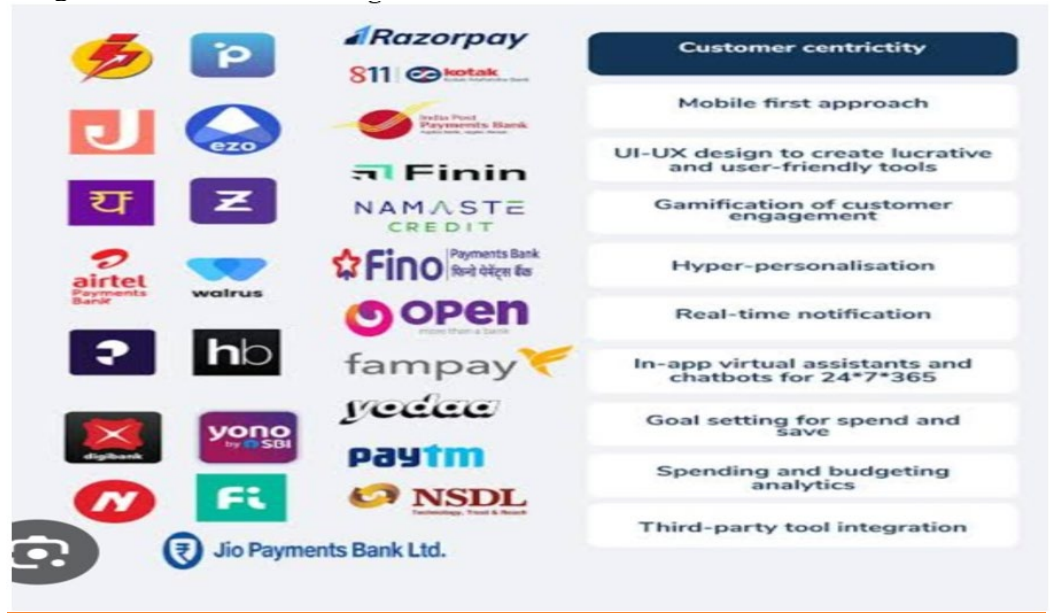


Image 1 Neo Banks in India

Source Twimbit

3.3. SERVICES OFFERED BY NEO-BANKS

Neo-banks in India offer a wide range of services designed to meet the needs of modern consumers and businesses. These include:

- **Savings and Current Accounts:** Neo-banks provide digital savings and current accounts with features like high interest rates, no minimum balance requirements, and instant account opening.
- **Digital Payments:** Integration with UPI and other payment systems enables seamless transactions, bill payments, and peer-to-peer transfers.
- **Loans and Credit:** Neo-banks offer personal loans, business loans, and credit lines with quick approval processes, often using AI-based credit scoring.
- **Investment Products:** Some neo-banks provide investment options, such as mutual funds, fixed deposits, and digital gold, through partnerships with financial institutions.
- **Expense Tracking and Budgeting:** Advanced analytics and AI-powered tools help customers track expenses, set budgets, and manage their finances effectively.
- **Travel and Forex Services:** Neo-banks like Niyto offer specialized services for international travellers, including forex cards and multi-currency accounts.

4. GROWTH DRIVERS OF NEO-BANKS IN INDIA

4.1. DIGITAL TRANSFORMATION

India's rapid digital transformation has been a key driver of neo-banking growth. The number of internet users in India has grown from 45 million in 2011 to over 800 million in 2025, driven by affordable smartphones and low-cost data plans.

The government's Digital India initiative has further accelerated digital adoption by promoting digital payments, e-governance, and financial inclusion. Neo-banks have capitalized on this trend by offering mobile-first banking solutions that cater to the needs of a digitally connected population.

4.2. CHANGING CONSUMER PREFERENCES

Today's consumers, particularly millennials and Gen Z, prefer convenience, speed, and personalization in their banking experience. Neo-banks meet these expectations by offering user-friendly apps, instant services, and customized financial products. For example, features like real-time expense tracking, automated savings, and AI-driven financial advice appeal to younger customers who value efficiency and transparency.

4.3. FINANCIAL INCLUSION

Neo-banks play a crucial role in promoting financial inclusion in India, where a significant portion of the population remains unbanked or underbanked. By offering low-cost, accessible banking services, neo-banks reach underserved segments, such as rural populations and MSMEs. For instance, RazorpayX provides business banking solutions tailored to small businesses, enabling them to manage finances efficiently.

4.4. PARTNERSHIPS WITH TRADITIONAL BANKS

Neo-banks often operate in partnership with traditional banks, allowing them to leverage existing banking infrastructure while focusing on innovation. These partnerships enable neo-banks to offer regulated services, such as savings accounts and loans, without requiring a full banking license. For example, Jupiter partners with Federal Bank, while Niyo collaborates with Yes Bank and DCB Bank.

4.5. COST EFFICIENCY

By eliminating the need for physical branches, neo-banks significantly reduce operational costs. This allows them to offer competitive interest rates, low or no fees, and innovative services. The cost-efficiency model is particularly appealing in a price-sensitive market like India, where customers seek value-for-money financial solutions.

5. CHALLENGES FACED BY NEO-BANKS IN INDIA

5.1. REGULATORY CONSTRAINTS

The Reserve Bank of India (RBI) imposes strict regulations on financial institutions, including neo-banks. Most neo-banks in India do not hold a full banking license and must operate as fintech platforms in partnership with licensed banks. This dependency limits their ability to offer certain services, such as deposit insurance, and subjects them to regulatory oversight. Additionally, evolving regulations around data privacy and digital payments create uncertainty for neo-banks.

5.2. CYBERSECURITY RISKS

As digital-only entities, neo-banks are highly vulnerable to cybersecurity threats, including data breaches, hacking, and phishing attacks. Ensuring robust cybersecurity measures is critical to maintaining customer trust and complying with regulatory requirements. A single security breach can significantly damage a neo-bank's reputation and customer base.

5.3. LACK OF PHYSICAL PRESENCE

The absence of physical branches poses a challenge for neo-banks in building customer trust. Many Indian customers, particularly in rural areas, prefer face-to-face interactions and are hesitant to switch to digital-only platforms. Neo-banks must invest in customer education and trust-building initiatives to overcome this barrier.

5.4. COMPETITION FROM FINTECH AND SUPER APPS

Neo-banks face intense competition from fintech companies and super apps that offer integrated financial services. Platforms like Phone Pay, Google Pay, and Paytm provide payment, lending, and investment services, directly competing with neo-banks. Additionally, traditional banks are adopting digital strategies, further intensifying competition.

5.5. CUSTOMER ACQUISITION AND RETENTION

Acquiring and retaining customers in a competitive market is a significant challenge for neo-banks. While they attract tech-savvy customers, convincing traditional banking customers to switch requires significant marketing efforts and incentives. Retaining customers also depends on delivering consistent, high-quality services and addressing customer concerns promptly.

6. FUTURE PROSPECTS OF NEO-BANKS IN INDIA

6.1. MARKET GROWTH POTENTIAL

The neo-banking market in India is poised for significant growth, with a projected CAGR of over 50% through 2025. The increasing adoption of digital payments, growing smartphone penetration, and rising demand for personalized financial services are key drivers of this growth. Neo-banks are well-positioned to capture a larger share of the market by targeting underserved segments and offering innovative solutions.

6.2. TECHNOLOGICAL ADVANCEMENTS

Advancements in AI, ML, and blockchain technology will further enhance the capabilities of neo-banks. AI-driven tools can provide personalized financial advice, improve credit scoring, and detect fraudulent activities. Blockchain technology can enhance the security and transparency of transactions, addressing cybersecurity concerns.

6.3. EXPANSION OF SERVICES

Neo-banks are likely to expand their service offerings to include wealth management, insurance, and cryptocurrency services. By diversifying their portfolios, neo-banks can attract a broader customer base and compete with traditional banks and fintech companies.

6.4. REGULATORY EVOLUTION

As neo-banks gain prominence, the RBI is likely to introduce regulations tailored to digital-only banks. A clearer regulatory framework could enable neo-banks to operate independently, reducing their reliance on traditional banks. However, compliance with evolving regulations will remain a critical factor for success.

6.5. GLOBAL COMPARISONS

Globally, neo-banks like Monzo and Revolut have achieved significant success by focusing on customer experience and innovation. Indian neo-banks can learn from these examples by adopting best practices in technology, customer service, and marketing. For instance, offering multi-currency accounts and seamless international transactions could attract Indian customers who frequently travel or conduct cross-border business.

7. CASE STUDIES

7.1. PAYTM PAYMENTS BANK

PayTM Payments Bank is one of India's leading neo-banks, offering a range of services, including savings accounts, digital payments, and investment products. Its success can be attributed to its parent company's strong brand presence, extensive merchant network, and integration with UPI. However, PayTM Payments Bank has faced regulatory scrutiny, highlighting the importance of compliance in the neo-banking sector.

7.2. JUPITER

Jupiter, a neo-bank targeting millennials and Gen Z, has gained popularity for its user-friendly app and innovative features, such as automated savings and expense tracking. By partnering with Federal Bank, Jupiter ensures regulatory compliance while focusing on customer experience. Its emphasis on personalization and transparency makes it a strong player in the market.

7.3. NIYO

Niyo focuses on travel and forex services, offering zero-markup forex cards and multi-currency accounts. Its niche approach has helped it carve out a unique position in the neo-banking market. Niyo's partnerships with banks like Yes Bank and DCB Bank enable it to offer regulated banking services while maintaining a digital-first approach.

8. RECOMMENDATIONS

To overcome challenges and achieve sustainable growth, neo-banks in India can adopt the following strategies:

- 1) **Strengthen Cybersecurity:** Invest in advanced cybersecurity measures, such as encryption, multi-factor authentication, and AI-based fraud detection, to protect customer data and build trust.
- 2) **Enhance Customer Education:** Launch awareness campaigns to educate customers about the benefits of neo-banking, particularly in rural and semi-urban areas.
- 3) **Expand Partnerships:** Collaborate with more traditional banks, fintech companies, and technology providers to offer a wider range of services and improve operational efficiency.
- 4) **Focus on Innovation:** Leverage AI, ML, and blockchain to develop innovative products, such as personalized financial advice, decentralized finance solutions, and seamless cross-border payments.
- 5) **Navigate Regulatory Challenges:** Work closely with regulators to ensure compliance and advocate for policies that support the growth of neo-banks.

9. CONCLUSION

Neo-banks are transforming the banking landscape in India by offering innovative, customer-centric, and cost-effective financial solutions. Their growth is driven by digital adoption, changing consumer preferences, and the push for financial inclusion. However, challenges such as regulatory constraints, cybersecurity risks, and competition from fintech and traditional banks pose significant hurdles. By leveraging technology, building customer trust, and navigating regulatory challenges, neo-banks can redefine the future of banking in India. As the market evolves, neo-banks have the potential to become key players in the financial sector, offering seamless and accessible services to a diverse population.

CONFLICT OF INTERESTS

None.

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