

Report On NEO BANKS: FUTURE OF INDIAN BANKING SYSTEM

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Abstract

The term Neo Bank has gained momentum recently considering its entry in the Financial Technology segment. If one wants to define Neo Banks they can be defined as Banks which do not have any corporeal presence and they interact with their customer base through online modality only. The term is a conglomeration of the two terms Information Technology and Artificial Intelligence. The ultimate aim of a Neo Bank is to provide for a seamless online banking experience to the customers. With time ,the Neo Banks have tried to distinguish themselves between the Grievance redressal services provided by the employees of the banks and being focused only on providing seamless banking experience to the customers The current study is based on the secondary data available through different sources and a comparative study is done to analyze the role of neo banks in the country.

The study aims to fulfill the following objective:

1. Understanding the structure of Neo Banks in India
2. Comparative Study of Neo Banks with traditional Banks

Descriptive Research Design using Qualitative & Quantitative data from various secondary sources are used to conduct this research. A Comparative method is also used to compare the situation of Neo Banks and Traditional Banks. Neo banks are becoming the new face of Indian banking system. They have rightly identified the gap between the need of the customers and the services offered by traditional banks. The services provided by them ensures seamless services provided to the customers. They also ensure that the customers have a hazard free transaction.

Key Words: Neo Banks, Traditional Banks Vs Neo Banks, Structure of Neo Banks

I. Introduction

The term Neo Bank has gained momentum recently considering its entry in the Financial Technology segment. If one wants to define Neo Banks they can be defined as Banks which do not have any corporeal presence and they interact with their customer base through online modality only. The term is a conglomeration of the two terms Information Technology and Artificial Intelligence. The ultimate aim of a Neo Bank is to provide for a seamless online banking experience to the customers. With time, the Neo Banks have tried to distinguish themselves between the Grievance redressal services provided by the employees of the banks and being focused only on providing seamless banking experience to the customers. The need to jump out of the traditional thought process is obvious because when technology is considered in the field of finance, they have been only restricted to two categories-Process Centric & Consumer Centric. But with the increase in demand for a bugless system Neo Banks have been forced to transform their focal areas and imbibe the current market requirement. The way the Fintech Segment has evolved, and the way banking system has digitalized itself ensuring maximum reachability and integrated financial system for its customers. The concept of Neo Banks are specifically more solution oriented. Their feedback on customer handling, management, convenience and transparency is commendable. They are usually Non- Banking service providers of banking services as the Reserve Bank of India (RBI) has not approved for their 100% banking services, they can only function through their respective bank partners only. These Banks provide speedy services to the customers in respect of account opening, initiating and receiving payments, allocation and settlement solutions, It helps the MSME's to improve their creditworthiness .

In this era of modernization in banking sector through digital means these Neo Banks serve as the most sought after alternative due to their Cost Effective Model. Establishment of Neo Banks in India is a arduous process, due to strict RBI guidelines. It was only in 2019 that RBI allowed these Neo Banks to operate in the Indian Banking environment with a circumscribed ecology

II. Objective of the Study:

The current study is based on the secondary data available through different sources and a comparative study is done to analyze the role of neo banks in the country.

The study aims to fulfill the following objective:

1. Understanding the structure of Neo Banks in India
2. Comparative Study of Neo Banks with traditional Banks

III. Literature Review.

1. Bhasin,2020-in his study stated the role of Neo Banks in India. The research emphasized the integration of technology and artificial intelligence to provide a seamless service for the

customer. The study also focused on the enterprises which are looking forward to enter the Indian Market .

2. Palepu,Advait Rao,2019 -in his research aimed at establishing a relation with Capital Investment and the reachability of Neo Banks. The study also focused on the need for the limitations that were being imposed by RBI on these NEO Banks. The author also specifies that the prospect of Neo Banks in India shall flourish more and in a better manner in the Indian Market in comparison with any other market as the need and requirement of obtaining digital services is comparatively more in the country.

3. Agarwal and Nagar,2020-in their study has pointed about the constant changing environment in the banking industry. They have mentioned about the basic difference between Neo Banks and digital banks. They have also highlighted the essence of Neo Banks by brining out their benefits and shortcomings. The study has also brought to light the mechanism in which these Neo Banks function and operate.

4. Hopkinson,Turcam Klarova and et al,2019-The study highlighted the essence of the transformation bought about by the Neo Banks. It underlined the importance of the emergence of these Neo Banks and the reasons behind the same. The study suggested that it is only due to Neo Banks that the customers can invest in mutual funds. The flexibility of investing and using banking services as and when they want and also how customers can get an additional interest via investing in these Neo Banks.

5. Kothari,2017-The study does not include anything on the lines of Fin Tech or Neo Banks,but the study explains the functioning of a commercial bank. The study helps to draw a comparison between the Neo Banks and Traditional Bank

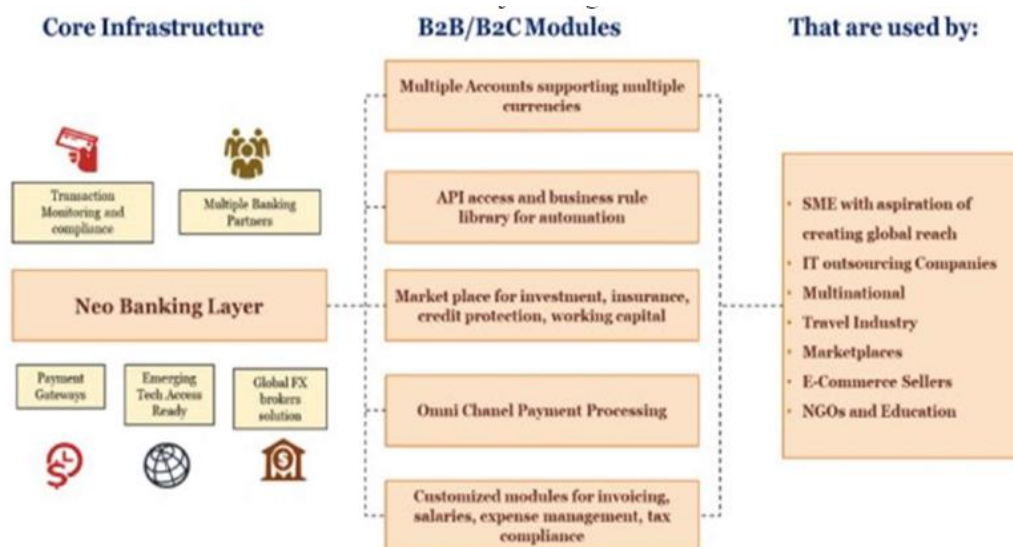
IV. Research Methodology:

Descriptive Research Design using Qualitative & Quantitative data from various secondary sources are used to conduct this research. A Comparative method is also used to compare the situation of Neo Banks and Traditional Banks.

V. Structure of NEO Banks:

Neo Banks are platform centric banks which rely on their partnering banks to function in a most efficient manner. They are virtually operated banks which work on the integration of Artificial Intelligence and Information Technology.

The structure of Neo Banks are classified into 3 major categories:



1. Core Infrastructure: The Neo Banks provide back end functioning to their partnering banks through this function. They provide solutions to the traditional banks with the grievances raised by the customers of Partnering bank.

2. B2B/B2C Model: Through this platform these neo banks provide end to end services to the partnering bank customers.

3. Users:Neo Banks have end number users for their services provided.IT companies, Financial Companies all opt for the services given by these Neo Banks.

VI. Comparative Study of Neo Banks & Traditional Banks.

While analyzing the GAP between the advantages and disadvantages of Neo Banks and traditional Banks one can conclude the following points.

1. In comparison with the Traditional Banks Neo banks modality of operation are very cost effective. It does not have any operational and logistical cost attached to it.
2. Neo Banks are completely technology oriented, but this orientation also removes the essence of banking i.e. face to face interaction with the customers which facilitates many innovative product ideas as well.
3. Neo Banks provides 24*7 access to its customers but it then stops the customers to visit their banks .
4. The biggest dependency of Neo Banks is on technology but its one of the biggest drawback as well. Every data is technology driven. Any deviation in the policy will not be entertained at all.
5. Getting the license for a Neo Bank is very difficult in comparison with starting a Traditional Bank.

VII Conclusion.

Neo banks are becoming the new face of Indian banking system. They have rightly identified the gap between the need of the customers and the services offered by traditional banks. The services provided by them ensures seamless services provided to the customers. They also ensure that the customers have a hassle free transaction.

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