Editorial

Neo-banks: the Fintech Disruption in Indian Banking Sector

The phenomenal growth of neo banks in India amidst the pandemic indicates that such banks are the new avatar and advanced version of traditional banking that netizens are embracing as new normal. The momentum of the neo banking model was triggered by Indian startups coming up with digital banking concept like Airtel Payments Bank, Jio Payments Bank, Indian Post Payments Bank, Paytm Payments Bank to name a few. Banks like Kotak created Kotak 811 and SBI came up with Yono and these models were closest to the neo banks in India. Then came the second wave- the brainchild of fintech world-neo banks. Neo banks are branchless exclusive online entity offering mobile application-based services. The services offered by the neo banks are similar to traditional banking services ranging from account opening, money withdrawal, deposits or fund transfer with the difference that they are digital without any physical branches and with traditional bank partner at the backend.

Globally, the concept of Neo Bank originated in the UK about a decade ago and is leading with 15 licenced neo banks running since 2005. In 2018, neo bank market worth at a global level was estimated US Dollar 18.6 billion and is projected to grow at an annual compounded rate of around 46.5 per cent between 2019 and 2026. Countries like Italy, France, Germany, Spain have witnessed a striking increase in online banking activities within six weeks of the coronavirus outbreak.

India seems to be a favourite destination for neobanks with 190 million unbanked population and 63.3 million MSME looking ahead for digital financial solutions. The report by International Data Corporation suggests that in the Asia Pacific region, out of every five customers, three are keen to adopt digital banking. McKinney estimates opening of more than 3000 startups worldwide offering combination of traditional and new financial services in just three years. The buzz can be attributed to the huge untapped potential coming from Blue-collar workers, foreign travel payments, smart digital bank accounts for students and the underserved MSME. The driving factors for the neo banks include the synergic impact of both traditional Bank and fintech which offers trust, safety and security along with innovation and seamless customer experience. Cost-effective multiple banking and financial services under one roof, accessibility through mobile, 24*7 customer services supported by real-time payments, artificial intelligence-enabled chatbots and win-win symbiotic proposition for the partner bank and the fintech company. Moreover, traditional banks are more than willing to partner with fintech to widespread their customer base.

While neo banks are ready to serve the futuristic people, there are lags. The paramount lag is regulatory restrictions and apprehensive customers. RBI has not yet permitted a hundred per cent digital bank model and is rigid on demanding bank's physical presence. Safety from cyber frauds remains another heated issue to safeguard the hard-earned money of the customers. Looking forward these banks may face huge challenges in terms of revenue sustainability due to low transaction fees. Witnessing the success of Starling Bank, Nubank, Monzo and the likes, venture capitalists are quite enthusiastic about the usage and popularity of neo banks in India.

(Prof Mahima Birla)

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